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December 22, 2015

School Committee  
Masconomet Regional School District  
20 Endicott Road  
Boxford, Massachusetts 01921

In planning and performing our audit of the financial statements of the Masconomet Regional School District as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Masconomet Regional School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Masconomet Regional School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Masconomet Regional School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We have reviewed the fiscal year 2015 financial statements and have found no significant deficiencies or material weaknesses.

Our audit involves reviewing internal accounting control procedures that are being followed by the District. During our audit we select a sample from the entire population of transactions, using generally accepted auditing standards (GAAS), that have been developed by the American Institute of Certified Public Accountants (AICPA). The sample transactions that were selected relate to payroll, accounts payable, accounts receivable, cash receipts and related items. During our review of the selected sample of transactions, we found that the District has very good internal accounting control policies and procedures in place. During this review of the selected sample items, we detected no findings or control deficiencies.

The items listed below are informational matters and changes to GASB (Governmental Accounting Standards Board) standards that affect the District.

**Other Postemployment Benefits (OPEB) – GASB 45**

Several years ago, the Governmental Accounting Standards Board (GASB), issued GASB Statement # 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits". Employee benefits can include pensions, health insurance and life insurance. These benefits are part of the "exchange of salaries and benefits" for employee services rendered. Whereas the cost of the health insurance and life insurance for active employees is incurred while the employees are in active service, pensions and the postemployment health care benefits are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for

employee services (i.e. the employees have “earned” their postemployment benefits prior to leaving service).

From an accrual accounting perspective, the cost of the pensions as well as other postemployment benefits (OPEB), generally should be associated with the period in which they were earned rather than when the benefits are paid (often many years later). However, in current practice OPEB expenses are funded on a “pay as you go” basis. By operating on the “pay as you go” method, governments have incurred an unfunded liability. Also, financial statements do not reflect an OPEB liability or expense until they are paid.

The objectives of the statement is to improve financial reporting by reflecting OPEB expenditures as they are earned and by reporting any unfunded liability. The unfunded liability at the beginning of the transition year in 2010 was zero. The unfunded liability at the end of the first year was the difference between an actuarially determined contribution requirement and the amount actually contributed. An actuarial valuation is required at least biennially for OPEB plans with a total plan membership (including active employees, terminated employees not yet receiving benefits and retired employees or beneficiaries who are currently receiving benefits) of 200 or more.

Several actuarial valuations have been performed since the initial required actuarial valuation that was performed for the fiscal year ended June 30, 2010. As a historical note, the District implemented a major plan design change (during fiscal year 2010), to retiree health insurance, and implemented a funding policy (and created an OPEB Trust). These two actions reduced the OPEB liability (during fiscal year 2010), for the District by approximately \$16,170,000.

The most recent actuarial valuation, performed for the fiscal year ended June 30, 2015, also reflects favorable changes. The expenses and liabilities, reflected in current report, decreased from the amounts noted in the prior report (primarily due to lower than expected increases in pre-65 premium rates and a significant decrease in the post-65 premium rate). These changes resulted in a reduction in the Actuarial Accrued Liability reflected in the most recent report of approximately \$8 million. The Actuarial Accrued Liability and other OPEB related financial amounts are shown in the June 30, 2015 audited financial statements in the “Statement of Net Position”, the required “Notes to the Financial Statements” and in “Required Supplementary Information” (in the rear of the financial statements).

### **GASB Statement #68 - Accounting and Financial Reporting for Pensions**

Currently the District is a member of the Essex Regional Retirement System. GASB Statement #68 establishes the methodology that must be used by governments to determine the “Net Pension Liability” (NPL), of the Retirement Plan that the District is a member of. Statement #68 requires that the District’s share of the plan’s Net Pension Liability be reported in the audited financial statements “Statement of Net Position”. During the fiscal year ended June 30, 2015, the District was required to implement GASB statement 68. This Statement requires that the District’s share of the Net Pension Liability be recorded in the audited financial statements, in a manner very similar to how the OPEB liability has been recorded (as noted above relating to GASB Statement # 45). Reporting the Net Pension Liability required that a liability of approximately \$6.2 million be recorded in the “Government Wide” financial statements as of June 30, 2015.

In addition to recording the Net Pension Liability in the “Statement of Net Position”, Statement #68 also requires that additional “Notes to the Financial Statements” (relating to the Pension System), be reflected in the financial statements and also requires more or expanded “Required Supplemental Information”.

## **Implementation of New GASB Pronouncements**

As we noted in the past, the GASB has been very active during the past few years in creating new GASB statements that apply to Governments throughout the country. We have noted below the new pronouncements that become effective during fiscal year 2015 and after. Some of these Statements may not be applicable to the District. We will work closely with the District to determine which statements are required to be implemented by the District.

During fiscal year 2015, the following GASB pronouncements became effective:

- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.
- The GASB issued Statement #71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date*.

The following GASB pronouncements will become effective in future fiscal years:

- The GASB issued Statement #72 *Fair Value Measurement and Application*, which is required to be implemented in fiscal year 2016.
- The GASB issued Statement #73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement #75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement #76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in fiscal year 2016.
- The GASB issued Statement #77 *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statements #73, 74 & 75 will have a significant impact on the District's "Government Wide" financial statements by recognizing the entire actuarially accrued liability and expense, related to the District's Other Post-Employment Benefits (OPEB).

## **Student Activity Procedures**

We reviewed the Districts procedures relating to Student Activity Accounts. During our review we found that the procedures were not always followed. For example, there were several instances where Advisors made purchases without prior approval using their own personal credit cards and then received reimbursement through the student activity fund. The regulations specify that staff should never receive a personal benefit from student activity accounts. Purchases must have prior approval to ensure the safeguard of student funds held by the district on their behalf. The district provides several formal ways for funds to be accessed including the purchase order system, the procurement card, and by directly petitioning the student activity fund treasurer for a check. In all cases, prior approval is required.

We also noticed that the procedures manual has not been recently updated to include the new Department of Elementary and Secondary Education guidelines for Student Activity funds.

### **Management Response**

The Business Manager and the Student Activity Fund Treasurer will update the Procedures Manual for the Student Activity Funds to incorporate the new Department of Elementary and Secondary Education Guidelines. Once the manual has been updated, training will be provided to all student activity fund advisors, coaches, and the building principals to ensure student funds are properly safeguarded and district procedures are followed.

### **Cash Reconciliation**

During our review of the cash reconciliation procedures and the related accounting records maintained by the District, we found that cash was properly reconciled from the District Accountant's general ledger cash balances to the Treasurer's cash book balances, as of June 30, 2015. During our review of the cash reconciliation matters identified, in our fiscal year 2015 audit, we reviewed some old outstanding checks that have been carried on the books from 2004 to 2013. The District's CFO has spent a significant amount of time reviewing these old outstanding checks to determine whether the checks relate to active vendors and represent amounts still due to the vendors. During this process, the District has made every attempt to locate payees and to follow all of the "notification" procedures, as outlined in Massachusetts General Laws Chapter 200A Section 9A, which include putting notices in the newspaper.

During our fiscal year 2015 audit, we have reviewed all of these old outstanding checks and have had discussions with the CFO on how to remove these items from the books and cash reconciliation spreadsheets and how to properly record the adjustments in the accounting records of the District. We are currently in the process of finalizing this work and will work closely with the District to make the necessary entries in the Districts books.

During our review of the cash reconciliation work and outstanding checks noted above, we also became aware of two additional matters that we reviewed closely with the District CFO, that require adjusting entries. The first matter relates to very old abandoned student activity class accounts that have been on the books since prior to 2004. Every attempt has been made to contact the owners of these accounts, but these attempts were unsuccessful. These accounts should be removed from the Districts books. The second item relates to some very old cash reconciling items that came about when the District converted to the new accounting system during 2004. These reconciling items have been carried in the cashbook and have been part of the cash reconciliation ever since then. We have reviewed these items with the District CFO and will work closely with the District to make the proper accounting adjustments and entries to remove these items from the Districts books as soon as possible.

### **Budgetary Votes**

During our review of the District's minutes, relating to budgetary votes for fiscal year 2016, we found that a vote was made to use \$30,000, from the International Student Fund, for an expenditure that is not allowed to be used by this fund. In our audited Financial Statements, on page 22, we have a description of the various types of restrictions to certain fund balance accounts. This particular fund has specific restrictions on how this fund can be used. It is important in the future to be careful to check the specific restrictions relating to any fund that is voted to be used.

During our review of the District's operating budget, we also found a vote that was made during June of 2015, relating to the District's fiscal year 2016 operating budget, that was not added to the fiscal year 2016 budget summary worksheet. This vote was made in June of 2015 to use \$42,642 of Excess and Deficiency to fund the central office restructuring plan. It is important to be certain that all budgetary

votes get added to the budget summary worksheet. In addition, any votes made to use Excess and Deficiency relating to the next fiscal year, must be recorded in the general ledger as a reservation of fund balance, at the time the vote is taken.

**Management Response**

The District acknowledges, and understands, that restricted funds can only be utilized for specific purposes and that the vote taken in June to access funds from the tuition paid by international students cannot be used to offset the costs associated with the Digital Learning Director and/or the Business Manager. The Budget Subcommittee would like the auditors to review the various fund restrictions with the School Committee and Administration during the audit presentation to ensure all members understand the limitations for future reference. The District also acknowledges that it will need to address the \$30,000 shortfall before the close of the FY16 fiscal year. Further, the Administration will update the FY 16 Budget to reflect the Excess and Deficiency Fund vote taken on June 24, 2015.

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This communication is intended solely for the information and use of management, and those charged with governance, and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

After you have had an opportunity to consider our comments and recommendations, we shall be pleased to discuss them further with you. We would like to thank you for the cooperation and courtesy extended to us during the course of the engagement.

Very Truly Yours,

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