

Giusti, Hingston and Company

Certified Public Accountants

36 Jackman Street, Unit 1

Georgetown, MA 01833

Tel: 978-352-7470 Fax: 978-352-8812

Email: GiustiHingstonCo@aol.com

September 28, 2012

School Committee
Masconomet Regional School District
20 Endicott Road
Topsfield, Massachusetts 01983

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, 2012, 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 do not consider the following matters to be significant deficiencies or material weaknesses. However, they are matters we want to communicate to you.

Recording Budgetary Votes and Transfers

During our review of the policies and procedures followed by the District's Chief Financial Officer, in relation to creating the District's annual budget, we found that a very good job is being done in estimating the budgetary amounts and documenting the source of the amounts. In creating the budget, it is necessary to estimate the budgeted revenues, transfers in and other available funds, as well as the budgeted expenditures and transfers out. Once the budgetary amounts are established and the proper votes have taken place, it is necessary to record these budgetary amounts in the general ledger accounting system. When the budget amounts are recorded by the District Accountant in the general ledger, it is important to prove the total budgeted revenues, transfers in and other available funds (Excess and Deficiency), to the total budgeted expenditures and transfers out.

The District Accountant has done a good job of recording the budgeted and actual revenues and expenditures, however the budgetary entries relating to recording transfers into and out of the general fund, and relating to recording the budgetary votes for Excess and Deficiency, are somewhat confusing to follow. For this reason, we recommend that the Accountant make a second entry to record the budgetary side of the transaction for both transfers from Special Revenue Funds to the General Fund and when funds are appropriated from the Excess and Deficiency fund. Making the budgetary entries will make these transactions easier to follow.

Managements Response

The auditors have made an observation regarding the recording of the budget entries related to the transfers in and out of the general fund. From a budgetary standpoint, the transfers are very unique; therefore, to bring more clarity to the reader, we will make a second entry to the budget side when recording all transfers in the future.

Governmental Accounting Standards Board Statement Number 54

The Governmental Accounting Standards Board (G.A.S.B.) has been very active in recent years. When the District implemented G.A.S.B Statement #34 several years ago, the financial statements took on a whole new look. Recently, the G.A.S.B issued Statement #54, which is effective for the District for the reporting period ending June 30, 2012. As a result, the components of fund balance reported in the District's audited balance sheet have new account classifications. According to the G.A.S.B., the objective of the statement is to "enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions."

The reporting requirements of G.A.S.B. Statement #54 eliminated the "reserved" component of fund balance in governmental funds. It has been replaced by a hierarchy of fund balance classifications based on the relative strength of the constraints that control how specific fund balance amounts can be spent. The new hierarchy of fund balance will be as follows:

1. *Nonspendable*, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),
2. *Restricted*, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitutional provisions or through enabling legislation, (for example, gifts, donations and most revolving funds),
3. *Committed*, includes amounts that can be used only for the specific purposes determined by a formal action of the School Committee (the District's highest level of decision-making authority),
4. *Assigned*, intended (by the School Committee, Superintendent or Chief Financial Officer) to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned*, the residual classification for the government's general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

Any of the five new components of fund balance could potentially be included in the District's audited balance sheet. The notes to the audited financial statements include a schedule that identifies the functions associated with each component of fund balance.

An element of GASB 54 that significantly impacts the District's audited balance sheet, for its governmental funds, is the requirement to report the Stabilization Fund as a component of fund balance in the General Fund. The Stabilization Fund was previously reported with the Non-Major Governmental Funds. This change increased the fund balance in the General Fund by \$448,074 as of June 30, 2012 on the audited balance sheet.

The Department of Elementary and Secondary Education and the Massachusetts Department of Revenue (Division of Local Services) do not intend to make changes to the Uniform Municipal Accounting System chart of accounts to comply with G.A.S.B. Statement #54. However, the District has the responsibility to have a "designated person" who is responsible for reviewing and understanding the financial statements prepared in accordance with generally accepted accounting principles. For the Masconomet Regional School District, the Chief Financial Officer has reviewed and understands G.A.S.B. Statement #54.

Internal Accounting Controls

During our annual audit, one of our main objectives, relating to the Districts system of internal accounting control, is to review the internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the audited financial statements.

The American Institute of Certified Public Accountants (AICPA) has adopted SAS 112 (Statement on Auditing Standard number 112). This standard relates to internal control documentation and places heavy emphasis on management's responsibility for establishing, documenting and periodically reviewing its systems of internal controls over key financial transaction cycles (i.e. payroll, purchase/disbursements, accounts receivables and cash) and over financial reporting. A goal of the standard is to heighten management's awareness that they are ultimately responsible for their financial statements and systems of internal control and, therefore, must weigh and manage the associated risks. In establishing the controls, management is responsible for assessing the fraud risk related to each cycle.

Internal accounting control policies and procedures are designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness of operations and compliance with applicable laws and regulations. When designing internal accounting controls, it is important to develop them using the COSO (Committee of Sponsoring Organizations) framework model, which consists of the five interrelated components; Control Environment, Risk Assessment, Information and Communication, Control Activities and Monitoring.

The District has complied with the requirements of SAS 112. A significant effort has been undertaken by the District's Chief Financial Officer to prepare and document internal control policies and procedures. A very good job has been done in preparing these documents. We recommend that the District continue in its effort to document the internal accounting control procedures (and financial management policies) and to update the documents for any changes that occur, and to document the risk assessment of the various internal control cycles (i.e. potential for fraud or material errors). The documentation requirement is a means to ensure that management's intended significant controls are known and can be evaluated during the audit process. Adequate documentation of internal control policies also provides a mechanism to ensure that management's intentions relating to internal control will be available when there is turnover in key financial positions.

* * * * *

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,

James J. Giusti

James J. Giusti
Certified Public Accountant