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October 10, 2014

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, 2014, 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 2014 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.

Informational Item

Legislation related to retirees' health insurance has been introduced by the Governor. The legislation, if enacted, will affect all municipal entities in Massachusetts. We are providing the District with the following information relating to retiree health insurance that is not a finding, but, has been written for informational purposes only.

Pending Legislation Retirees’ Health Insurance

In February of 2013, the Governor introduced legislation (House Bill Number 59) aimed at reducing the cost/liability for retirees’ health insurance. The legislation, if enacted, will change the eligibility requirements for age and years of service that employees must meet in order to receive the retirees’ health insurance benefit. In addition, the legislation pro-rates the retirees’ health insurance benefit based on years of service. In order to receive the District’s maximum benefit, an employee must have thirty years of service. If an employee retires with twenty years of service, he/she is eligible to receive 50% of the premium, regardless of the benefit offered by the employer. Upon reaching twenty-three and twenty-seven years of service the employee’s benefit increases (if the employer’s maximum benefit exceeds 50%). Long term employees would be among those who phase in to the maximum benefit. In an attempt to protect employees close to retirement and those on disability pensions, the legislation includes grandfathering and phase in provisions. The legislation, as written, does not include a local option provision.

On October 31, 2013, the Massachusetts legislature had a public hearing on this matter. At this point, nothing has been finalized.

If passed, the long term impact of the legislation would reduce the District’s Other Post Employment Benefits liability and the future appropriation requirements for retirees’ health insurance. We recommend that the District monitor the status of the House Bill Number 59.

GASB Statement #65 - Items Previously Reported as Assets and Liabilities - Statement #65 reclassifies certain items currently being reported as assets and liabilities as outflows (or deferred outflows) of resources and inflows (or deferred inflows) of resources. The required implementation date of Statement #65 for the District is June 30, 2014.

The most common accounting matter that would require using the new GASB Statement would be if the District were to do a Debt Refunding. Under the previous accounting Standard, the District’s Financial Statements would have reported the “Deferred Debit on Debt Refunding Issue” as an asset. In accordance with GASB Statement #65 it would now be reported as a Deferred Outflow of Resources.

GASB Statement #68 - Accounting and Financial Reporting for Pensions – Currently the District is a member of the Essex Retirement System. Statement #68 establishes the methodology that must be used by governments to determine the “net pension liability” of the Retirement Plan that the District is a member of. The District’s share of the plan’s net pension liability will be reported in the District’s Statement of Net Position. Reporting the net pension liability will have a significant impact on the District’s net position. Currently, the pension system’s unfunded liability is only reported in the Required Supplementary Information section of the District’s financial statements and does not impact the District’s Statement of Net Position. The required implementation date of Statement #68 for the District is June 30, 2015.

Since the unfunded “other post-employment benefits” liability is similar to the net pension liability, it appears likely that the Governmental Accounting Standards Board will address reporting the entire OPEB liability in the Statement of Net Position. Currently, the reporting of the OPEB liability is being phased in over a thirty year period.

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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,

Giusti, Hingston and Company

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