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November 2, 2018

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, 2018, 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 and therefore there can be no assurance that all such deficiencies have been identified.

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.

**Implementation of New Accounting Standards**

In an effort to enhance the financial information available to readers of government financial statements, the Governmental Accounting Standards Board (GASB) is continually issuing new "statements" that affect what is required to be reported in governmental financial statements. The GASB issued new statements that affect the District's reporting requirements.

As we noted in our prior year management letter, GASB Statement #74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", was effective for the District's fiscal year 2017 financial statements. GASB 74 requires additional disclosures and Required Supplementary Information schedules regarding the District's Other Post Employment Trust Fund. Most of the data necessary for the new reporting requirement is provided by an actuary.

The District must have a biennial Other Post-Employment Benefits (OPEB) actuarial valuation. However, there are actuarial updates that will be needed annually.

GASB Statement #74, also, requires that the actuary have data that supports the discount rate utilized in the valuation. Otherwise, a much lower discount rate (the twenty year municipal bond rate) must be utilized as the discount rate. The lower the discount rate is, the higher the OPEB liability is.

The GASB also issued Statement #75, "Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions", which is effective for the District's current fiscal year ended June 30, 2018 reporting period. GASB Statement #75 is a complex, two hundred and eighty-one page document that provides guidance on financial reporting for a variety of different types of OPEB plans.

One of the most significant changes, that is a result of GASB Statement #75, is the requirement to report the District's **entire** OPEB liability, beginning with the fiscal year 2018 financial statements. Prior to the issuance of GASB 75, the OPEB liability was being "**phased in**", over a thirty year period (the prior "**phased in**" requirement was called the OPEB "**obligation**"). For the fiscal year ended June 30, 2018, the financial statements reflect the total OPEB liability of \$76,889,072. As required by GASB 75, the financial statements also reflect the OPEB Trust Plan net position of \$462,029, resulting in a net OPEB liability of \$76,427,043.

### **General Ledger Accounting and Posting Matters**

During our review of the general ledger posting transactions, relating to the fiscal year ended June 30, 2018, we found that certain items were not properly posted, as noted below:

- 1- A budgetary transfer of \$20,278, that should have been recorded, was not recorded. When we reviewed this item with the Accountant, the proper entry was made to correct the activity.
- 2- A budgeted expenditure related to a capital asset, in the amount of \$11,843, was posted to the capital asset fund (number 910), but should have been posted to the general fund (number 100). When we reviewed this item with the Accountant, a reclassification entry was made to correct the activity.
- 3- During our review of the fiscal year ended June 30, 2018 fund balance accounts, we found that fund number 210, was in a deficit position. When we reviewed this item with the Accountant, a reclassification entry was made to correct the activity.
- 4- During our review of the fiscal year ended June 30, 2018 fund balances accounts, we found that fund number 226, was in a deficit position. When we reviewed this item with the Accountant, a reclassification entry was made to correct the activity.

Because the Masconomet Regional School District is considered a Massachusetts municipal entity, there are certain accounting requirements that are different than those in a commercial environment. For example, municipalities in Massachusetts are legally required to adopt a budget that is recorded in the general ledger accounting system. Typically, in a commercial environment, there is no requirement to record budgetary amounts in the financial statements. To be in compliance with Massachusetts municipal statutory and accounting requirements under UMAS (Uniform Municipal Accounting System - prepared by the Massachusetts Department of Revenue), it is necessary to record budgetary financial information in the general ledger accounting system. Some of these budgetary accounting entries include transfers that must be made between certain funds in the general ledger. In addition, the UMAS manual places a heavy emphasis on the use of fund accounting.

It is important that the budgetary and fund accounting entries be properly recorded in the general ledger accounting system. When the District Accountant encounters certain accounting matters, whether budgetary or otherwise, that are new to her, we recommend, that, when appropriate, she go over the specific details of these items with the Assistant Superintendent for Finance and Operation to take advantage of her significant knowledge and experience relating to these matters.

### **Current Status of Prior Year Comments Relating to Cash Reconciliation**

During our current fiscal year ended June 30, 2018 audit, we reviewed the current status of the 2017 management letter comment that we wrote that relates to “cash reconciliation”. This matter was identified as an important area that affects the internal accounting controls and reporting requirements.

During our current audit, we found that the internal accounting control procedures relating to cash were properly being followed, for the fiscal year ended June 30, 2018. Cash is now being properly reconciled from the Accountant’s general ledger balances to the Treasurer’s cash book balances and to the actual bank statement balances, in a timely manner every month.

### **Implementation of New GASB Pronouncements**

The Governmental Accounting Standards Board has been very active in developing new standards in the past few years. It is important that the District be aware of the current and proposed standard changes. During fiscal year 2018, the following GASB pronouncements were effective:

- The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which was required to be implemented in fiscal year 2017. The implementation of this pronouncement required new disclosures and required supplementary information schedules related to the District’s Other Post-Employment Benefits Trust Fund. This statement is also an important part of the fiscal year 2018 financial statements.
- The GASB issued Statement No. 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 No 81 *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2018. The implementation of this pronouncement did not impact the financial statements for the District.
- The GASB issued Statement No 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 85, *Omnibus 2017* which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* which is required to be implemented in fiscal year 2018. The implementation of this pronouncement did not impact the financial statements for the District.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* which is required to be implemented in fiscal years beginning after June 15, 2018.
- The GASB issued Statement No. 84, *Fiduciary Activities* which is required to be implemented in fiscal years beginning after December 15, 2018.
- The GASB issued Statement No. 87, *Leases* which is required to be implemented in fiscal years beginning after December 15, 2019.
- The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which is required to be implemented in fiscal years beginning after June 15, 2018.

- The GASB issued Statement No. 89, Accounting for Interest Costs Incurred before the end of a construction period which is required to be implemented in fiscal years beginning after December 15, 2019.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

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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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