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January 7, 2020

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, 2019, 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 the District.

**Implementation of New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued numerous new GASB Statements over the past several years that have made the audited Financial Statements very complex and elaborate. The audited Financial Statements are now up to 60 pages long. One of the biggest changes that was made relates to GASB 74 and GASB 75. These GASB statements have created very extensive reporting requirements relating OPEB (Other Post Employment Benefits).

As we noted in our prior year management letter, GASB Statement #74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", is now effective for the District's 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, 2019 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, which was first required for the fiscal year ended June 30, 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, 2019, as required by GASB 75, the financial statements reflect a net OPEB liability of \$86,737,327.

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

As we noted above, the Governmental Accounting Standards Board (GASB), has issued numerous new GASB Statements. Some of the Statements are effective for the current fiscal year, and others are effective in future periods. It is very important that the District Accountant become familiar with these Statements. We have provided below a listing of the GASB Statements.

During fiscal year 2019, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* which is required to be implemented for reporting periods beginning after June 15, 2018. The implementation of this statement did not impact the financial statements.
- The GASB issued Statement No. 84, *Fiduciary Activities* which is required to be implemented in reporting periods beginning after December 15, 2018.
- The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* which is required to be implemented in reporting periods beginning after June 15, 2018. The implementation of this statement did not impact the financial statements.

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

- The GASB issued Statement No. 87, *Leases* which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 90 *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* which is required to be implemented in reporting periods beginning after December 15, 2018.
- The GASB issued Statement No. 91, *Conduit Debt Obligations* which is required to be implemented in reporting periods beginning after December 15, 2020.

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

### **Student Activity Accounts and Audit Requirement**

During our current financial statement audit of the District, for the fiscal year ended June 30, 2019, we did a brief review of the District's Student Activity accounts. During this review, we looked at the current status of the findings and recommendations that were noted in the Student Activity audit that was performed for the fiscal year ended June 30, 2017.

During this current review, we spoke with the District's new Accountant about the current status of the findings and recommendations that were reported in the June 30, 2017 Student Activity audit report.

Student Activity audits are required to be performed for the District's Student Activity funds, in accordance with the "Agreed Upon Procedures and Audit Guidelines for Student Activity Funds", promulgated by the Massachusetts Department of Elementary and Secondary Education (ESE). One of the requirements included in the Student Activity audit guide states that "there shall be an annual audit of the Student Activity funds which shall be conducted in accordance with the procedures agreed upon between the School Committee and the auditor based upon guidelines issued by ESE".

During our current review, we found that annual audits of the Student Activity accounts were not performed. We recommend that procedures be developed and agreed upon by the School Committee and the internal auditor, that requires that internal annual audits of the Student Activity funds be performed, in accordance with the ESE Student Activity audit guidelines.

The Student Activity audit guidelines also require that an outside Independent Audit be performed every three years. We recommend that the District have an independent audit firm perform a Student Activity audit for the fiscal year ended June 30, 2020.

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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 findings 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.

Sincerely,

*Giusti, Hingston and Company*

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