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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, 2013, 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 2013 financial statements and have found no significant deficiencies or material weaknesses. However, we do wish to bring to your attention several changes that have or will change the way information is reported, update you on an item mentioned in the prior year audit, and make you aware of an efficiency measure introduced to the District's Accountant.

Fund Balance Analysis and Transfers

In order for the Massachusetts Department of Revenue (DOR), to certify the District's Excess and Deficiency each year, the DOR requires the District to submit a year end Combined Balance Sheet and a current year fund balance analysis of the General Fund. This fund balance analysis is made up of the beginning of the year fund balance, the current year revenues and expenditures, and shows any interfund transfers and other adjustments. It also reflects the end of year fund balance that must reconcile to the Combined Balance Sheet.

One of the standard audit procedures we perform each year relates to preparing an "analysis of changes in fund balance" spreadsheet for all fund balance accounts in the District's general ledger accounting system. In addition to preparing fund balance analysis spreadsheets for all funds, we also prepare an analysis of

interfund transfers that were recorded in the general ledger during the current fiscal year. These fund balance analysis worksheets are very useful tools that can be used to prove that all of the revenues, expenditures and interfund transfers were properly recorded in the general ledger.

Currently the District Accountant does a good job of properly recording all accounting transactions in the general ledger system and performing all of the necessary reconciliation procedures. However, in order to help the District with the year end process of reconciling all of the general ledger accounts and to make the process of preparing and submitting the required information to the DOR more efficient, we have provided the District Accountant with an electronic copy of our fund balance analysis and interfund transfer spreadsheets. We recommend that the Accountant use these spreadsheets each year to make the year end closing and reconciliation process more efficient.

GASB Statement Number 63 – Reporting Changes

The Governmental Accounting Standards Board, (GASB), issued **Statement Number 63**, which became effective for Financial Statements prepared for the fiscal year ended June 30, 2013. This Statement amends the “**net asset**” reporting requirements in **Statement No. 34**, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”, and incorporates the concept of deferred inflows and deferred outflows of resources, and the new terminology, “**Net Position**”.

A significant change required by this new statement is that the **name of the Statement of “Net Assets” has been changed to the Statement of “Net Position”**. In addition to the name change for the “Statement of Net Assets”, wherever the words “**Net Assets**” were used in the prior Financial Statements, GASB 63 requires that they be replaced by the words “**Net Position**”.

For the fiscal year ended June 30, 2013, the District does not have any items that need be reported as deferred inflows or deferred outflows, however, based on GASB 63 criteria, the name change from the Statement of Net Assets to the Statement of Net Position, “is still required regardless of whether a government reports any deferred outflows of resources or deferred inflows of resources”.

GASB 63 states that **The Statement of Net Position** should be presented in the order of; Assets, Deferred Outflows, Liabilities, Deferred Inflows, and **Net Position**. In addition, The Statement of Net Position should report the residual amount of these account classifications **as net position, rather than net assets**.

Informational Item

Recent 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

Recently, 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%). Since the District’s

maximum benefit is 72.5%, 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.

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.

Recording Budgetary Amounts and Excess and Deficiency Votes

As we noted in our prior audit report, the District's Chief Financial Officer does a very good job of estimating and documenting budgetary revenues and expenditures. We also noted that the District Accountant does a good job of recording the budgetary and actual revenues and expenditures, in the general ledger accounting system, and properly reconciling these amounts to the appropriate reports.

In our prior report, we recommended that the Accountant prepare an additional general ledger accounting entry relating to budgetary votes from Excess and Deficiency. During our current audit, for the year ended June 30, 2013, we reviewed the Accountants work relating to our prior recommendation. We found that the Accountant has created a new spreadsheet to be used to implement our recommendation. This spreadsheet lists all votes from Excess and Deficiency and has been set up to allow the District Accountant to have the ability to reconcile the total budget amounts from the general ledger accounting system reports to the Chief Financial Officer's reports. We recommend that the Accountant continue to use this spreadsheet each year.

Managements Response

The Fiscal Management Subcommittee and management have reviewed the Management Letter and wish to acknowledge the new GASB reporting requirements, the pending legislation relative to retiree health insurance, and the updated "change in fund balance" worksheet provided by the auditors.

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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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