

NASHOBA REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2012

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To the Honorable School Committee
Nashoba Regional School District
Bolton, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nashoba Regional School District as of and for the fiscal year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management of the Nashoba Regional School District, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Powers & Sullivan, LLC'.

January 7, 2013

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Other Postemployment Benefits Actuarial Valuation

Comment

Since its implementation, the District has met the requirements to remain in compliance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. To remain in compliance, the District must obtain an updated actuarial valuation for the fiscal 2014 audit. This is two years after the latest actuarial report which was dated December 31, 2011 and was valid for the fiscal 2012 and 2013 audits.

Recommendation

Because GASB 45 is still relatively new, we wanted to remind the District to work with their actuarial firm to assure that the information needed for the next valuation report is provided in ample time for the fiscal 2014 audit.

Inventory Capital Assets

Comment

It is good business practice to periodically conduct an inventory of capital assets (such as every two to three years) to ensure that only active, in-service capital assets are included in the financial statements.

Upon the completion of an inventory, a reconciliation should take place comparing assets noted in the inventory to the capital asset listing. If an inventoried asset is not on the list then it should be recorded; correspondingly, if an asset on the list cannot be located during the inventory, a procedure should be in place to ensure that it was disposed of in accordance with state and District guidelines.

Recommendation

We recommend that the District consider inventorying its capital assets every two to three years and that the physical count be reconciled to the capital asset listing.

Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB

Current Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2013 and will substantially impact your financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.

- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

The GASB is expected to issue additional standards following #67 & #68 for Pensions, which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards. To briefly summarize these new standards –

- GASB #63 and GASB #65 will require reporting each of the financial position elements in a separate section in the statements of financial position. These elements are Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position; where assets + deferred inflows – liabilities – deferred inflows = net position. These new requirements will affect certain aspects of the financial statements currently and they will pave the way for the new reporting requirements of the new Pension and OPEB standards.
- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a *net pension liability (asset)* determined annually as of the fiscal year end. *Net pension liability (asset)* equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The District should expect to record significant pension and OPEB liabilities in the future.

Recommendation

While these GASB's do not go into effect until FY2014 and FY2015 we wanted to make the District aware of the magnitude these changes will have on financial statement reporting and disclosures. You should plan to meet with your actuaries and financial advisers as more information becomes available. You may also want to consider how and when this information should be communicated to your member communities and other financial statement users.

Reserve Fund for Future Payment of Compensated Absences

Comment

Effective July 3, 2012, Chapter 40, Section 13D, provides a city, town, or school district with the ability to establish a reserve fund for the future payment of accrued liabilities for compensated absences due any employee or full-time officer upon termination of employment.

At June 30, 2012, the District's estimate of this liability totaled \$67,000.

Recommendation

We recommend that the District consider accepting the provisions of this section with the goal of incrementally funding this liability.