

UP-ISLAND REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2013



Certified Public Accountants

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To the Honorable School Committee
Up-Island Regional School District

In planning and performing our audit of the financial statements of the Up-Island Regional School District (District) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 a matter that is an opportunity for strengthening internal controls and operating efficiency. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated January 20, 2014, on the financial statements of the District.

This communication is intended solely for the information and use of management, the School Committee and others within the organization and should not be used by anyone other than these specified parties.

Sullivan, Rogers & Company, LLC

January 20, 2014

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Comments and Recommendations

Journal Entries

Comment

We selected a sample of 25 journal entries and identified 11 instances where there was a lack of documentation supporting the entry. All transactions posted to the general ledger must be supported by appropriate documentation.

We identified through our audit that the entries referred to above were made for a reasonable business purpose.

Recommendation

We recommend all journal entries be accompanied by appropriate supporting documentation.

Pension Accounting and Financial Reporting

Comment

In June of 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the District will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide financial statements. The implementation of this Statement will also:

- More comprehensively measure the annual costs of pension benefits
- Place conditions on the use of the discount rate used to measure the projected benefit payments to their actuarial present value
- Require the use of the “entry age” actuarial cost allocation method, with each period’s service cost determined by a level percentage of pay (referred to as attribution method)
- Expand pension related note disclosures
- Expand pension related required supplementary information disclosures

The requirements of this Statement will improve the decision-usefulness of pension information in governmental financial statements and will enhance the comparability of pension information between governmental entities.

Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the District’s financial statements.

It should be noted that the implementation of GASB Statement No. 68 is strictly a financial reporting standard and does not constitute a state or federal mandate regarding the funding of the net pension obligation.

The District’s required implementation date of GASB Statement No. 68 is fiscal year 2015.

Recommendation

We recommend management continue to familiarize itself with GASB Statement No. 68 to prepare for its implementation.