

*Giusti, Hingston and Company*  
*Certified Public Accountants*  
*36 Jackman Street, Unit 1*  
*Georgetown, MA 01833*  
*Tel: 978-352-7470 Fax: 978-352-8812*  
*Email: [GiustiHingstonCo@aol.com](mailto:GiustiHingstonCo@aol.com)*

December 10, 2018

Board of Selectmen  
Town of Pepperell  
1 Main Street  
Pepperell, MA 01463

In planning and performing our audit of the financial statements of the Town of Pepperell, Massachusetts 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 Town of Pepperell, Massachusetts' 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 Town of Pepperell, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pepperell, Massachusetts' 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. For the fiscal year ended June 30, 2018, the GASB issued new statements that affect the Town'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 Town's fiscal year 2017 financial statements. GASB 74 requires additional disclosures and Required Supplementary Information schedules regarding the Town's Other Post Employment Trust Fund. Most of the data necessary for the new reporting requirement is provided by an actuary.

The Town 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 Town’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 Town’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 Net OPEB liability of \$11,238,951.

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

During fiscal year 2018, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is required to be implemented in reporting periods beginning after June 15, 2017. The implementation of this standard required reporting the entire net OPEB liability in the financial statements. In addition, the standard required significant note disclosures and additional required supplementary information.
- The GASB issued Statement No 81, Irrevocable Split-Interest Agreements, which is required to be implemented in reporting periods beginning after December 15, 2016. The implementation of this pronouncement did not impact the financial statements.
- 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. This Statement amends Statements 67 and 68 to require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The statement was implemented.
- The GASB issued Statement No. 85, Omnibus 2017 which is required to be implemented in reporting periods beginning after June 15, 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 86, Certain Debt Extinguishment Issues which is required to be implemented in reporting periods beginning after June 15, 2017. The implementation of this pronouncement did not impact the financial statements.

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 for reporting periods beginning after June 15, 2018.
- 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. 87, *Leases* which is required to be implemented in reporting periods 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 reporting periods beginning after June 15, 2018.
- 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.

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

### **Fixed Assets**

During our review of the Town's fixed assets that are recorded in the general ledger accounting system, in accordance with the GASB 34 (Governmental Accounting Standards Board) requirements, we found that the Town Accountant does a very good job of preparing a detailed excel spreadsheet of new fixed assets that are purchased during the year. This spreadsheet includes the required fixed asset information, such as general ledger account numbers, description of asset purchases, vendor name, date of purchase, information relating to Town Meeting Articles and other required information. In addition, each year the Town Accountant prepares an Email that she sends to the Department Heads. In this email she requests information relating to any disposal of assets or discontinued use of any major piece of equipment (valued over \$5,000).

In accordance with the requirements of GASB 34, capital assets with a purchase price of \$5,000 or more are added to the fixed asset list. These new capital assets are depreciated, using a half year convention, on the excel spreadsheet. A depreciation formula is used in the spreadsheet that calculates the proper depreciation amount. The general ledger accounting system is updated to include this information and is then reconciled with the fixed asset list.

During our review of the fixed asset list, for June 30, 2018, we found that not all Departments responded to the Town Accountants email that requested information that relates to the disposal of fixed assets or any changes to the fixed assets in their department. During our review, we found that some of the assets recorded on the fixed asset list had been disposed of by the Town. In order to be sure that any disposals or changes to fixed assets get properly recorded on the fixed asset list, we recommend that all Department Heads be certain to respond to the Town Accountants request each year relating to the disposal of fixed assets or any changes to the fixed assets in their department. Because the Town Administrator is the Chief Procurement Officer, the Town may want to consider having the Town Administrator's office be responsible for requesting the information from Department Heads relating to assets disposals and other changes.

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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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