

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2009

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2009

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Independent Auditors' Report

To the Honorable School Committee
Manchester Essex Regional School District
Manchester-by-the-Sea, Massachusetts 01944

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Manchester Essex Regional School District (District), as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2009, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, retirement system schedule of funding progress, retirement system schedule of employer contributions, other post employment benefits schedule of funding progress and other post employment benefits actuarial methods and assumptions, located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

March 12, 2010

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Manchester Essex Regional School District, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2009. The District complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements. All amounts, unless otherwise indicated, are expressed in whole dollars.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the Manchester Essex Regional School District's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This approach focuses on both the District as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District as a whole. The fund financial statements focus on the individual parts of the District's operations, reporting the District's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the District's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by member town assessment and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include providing pupil education at the three District schools, special education, transportation, health department, insurance, various school activities, district and central services. The District had no business type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well

as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Manchester Essex Regional School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's budgetary basis of accounting.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$15.7 million at the close of FY2009.

Net assets of \$15.7 million reflects its investment in capital assets (e.g., buildings, vehicles, equipment and textbooks), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to pupils; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets of \$182,000 represent the unexpended balances of state and federal grants and gifts.

The remaining balance of unrestricted net assets is reporting a deficit balance totaling \$264,000 which is primarily due to the implementation of GASB 45, which required the recognition of a \$1.8 million other post-employment benefits (OPEB) liability.

	<u>2009</u>	<u>2008</u>
Assets:		
Current assets.....	\$ 9,783,363	\$ 27,730,666
Capital assets.....	<u>39,234,207</u>	<u>20,755,420</u>
Total assets.....	<u>49,017,570</u>	<u>48,486,086</u>
Liabilities:		
Current liabilities (excluding debt).....	2,002,750	3,923,637
Noncurrent liabilities (excluding debt).....	2,048,508	218,307
Current debt.....	6,024,367	11,201,811
Noncurrent debt.....	<u>23,282,089</u>	<u>24,306,456</u>
Total liabilities.....	<u>33,357,714</u>	<u>39,650,211</u>
Net Assets:		
Capital assets net of related debt.....	15,742,741	7,261,533
Restricted.....	181,510	200,263
Unrestricted.....	<u>(264,395)</u>	<u>1,374,079</u>
Total net assets.....	<u>\$ 15,659,856</u>	<u>\$ 8,835,875</u>

Governmental activities increased the District's net assets by \$6.8 million. The following table shows the key elements of this increase.

Program revenues:		
Charges for services.....	\$ 809,214	\$ 932,994
General Revenues:		
Member town assessments.....	17,402,749	14,776,227
Massachusetts School Building Authority.....	7,570,381	6,869,000
Nonrestricted grants.....	5,181,016	4,901,621
Unrestricted investment income.....	326,465	528,544
Other revenues.....	<u>20,363</u>	<u>3,128</u>
Total revenues.....	<u>31,310,188</u>	<u>28,011,514</u>
Expenses:		
Administration.....	647,714	665,714
Instructional services.....	11,270,878	10,747,696
Other student services.....	2,159,374	1,987,436
Operations and maintenance.....	1,602,279	1,394,372
Fixed charges.....	6,147,104	3,891,789
Programs with other districts.....	1,678,685	1,378,464
Interest.....	<u>980,173</u>	<u>877,178</u>
Total expenses.....	<u>24,486,207</u>	<u>20,942,649</u>
Change in net assets.....	<u>\$ 6,823,981</u>	<u>\$ 7,068,865</u>

- Revenue increased by \$3.3 million (12%) during the year, which is primarily due to a \$2.6 million increase in member town assessments and the recognition of \$701,000 of school construction grant revenues.

- Expenses increased by \$3.5 million (17%) during the year, which is primarily due to increases in instructional services, fixed charges, and programs with other Districts totaling \$523,000, \$2.3 million and \$300,000, respectively. \$1.8 million of the increase in fixed charges is due to the recognition of the OPEB liability and \$160,000 is due to an increase in payments to the Massachusetts teachers' retirement system.
- The increase in net assets of \$6.8 million was primarily due to the recognition of \$7.6 million of additional school construction assistance from the MSBA and \$850,000 of debt payments raised in excess of depreciation expense. These increases were offset by the recognition of the \$1.8 million OPEB liability.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported a combined ending deficit fund balance of \$1.2 million, a decrease of \$15.5 million in comparison with the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$593,000, while total fund balance is \$882,000. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 3% of total general fund expenditures, while total fund balance represents 4% of that same amount.

The general fund decreased by \$81,000 in fiscal 2009, which is due to the use of reserves to balance the operating budget.

The state fiscal stabilization grant fund is used to account for federal funds that were received through the American Recovery and Reinvestment Act. During the last two months of the fiscal year, the District's state aid was reduced by approximately \$181,000. However, the state aid payment was replaced with a like amount of federal funds. The District's general fund budget was not adjusted for the late reduction in state funding; rather, eligible expenditures were transferred from the general fund to the state fiscal stabilization grant fund where an equal amount of federal revenues were also recorded.

The middle/high school construction fund accounts for the construction of the high school and middle school facility. At the end of the current fiscal year, the fund balance reported a deficit totaling \$3.6 million. This is due to the fact that the project has not been permanently financed and is being temporarily financed with bond anticipation notes.

The school choice fund accounts for the activities related to the state's school choice program. At the end of the current fiscal year, the fund balance reported a surplus totaling \$1 million.

Capital Asset and Debt Administration

The District has \$5 million in governmental bond anticipation notes outstanding at year-end that are due on October 30, 2009 and carries an interest rate of 1% per annum. At maturity, the District renewed the \$5,000,000 BAN. The new BAN matures on January 15, 2010 and carries an interest rate of 1.5% per annum and was paid-off at maturity with the proceeds of a school construction grant.

The District has \$24 million in long-term bonds outstanding at year-end to fund the middle/high school construction project. Project expenditures to date total \$38.8 million.

The Commonwealth enacted new legislation in fiscal 2004 that will provide a school construction grant to the District equal to 40% of approved school construction costs. Accordingly, the District has recorded a receivable totaling \$4.4 million, which is equal to 40% of eligible costs incurred through June 30, 2009. The District received a \$10,000,000 grant payment on August 12, 2008 that was used to pay-down BANS upon maturity.

Major capital events during the current fiscal year consisted of \$18.6 million of additions to construction in process for the \$49 million school construction project.

Please refer to notes 4, 6 and 7 for more information on capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Manchester Essex Regional School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Business Manager, Manchester Essex Regional School District, 36 Lincoln Street, Manchester, MA 01944.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Primary Government
	Governmental Activities
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ 5,281,807
Receivables, net of allowance for uncollectibles:	
Intergovernmental.....	4,501,556
NONCURRENT:	
Capital assets, net of accumulated depreciation:	
Nondepreciable.....	38,799,311
Depreciable.....	434,896
TOTAL ASSETS.....	49,017,570
LIABILITIES	
CURRENT:	
Warrants payable.....	1,289,478
Accrued payroll.....	214,987
Accrued interest.....	459,218
Other liabilities.....	19,067
Compensated absences.....	20,000
Unamortized premium on bonds and notes payable.....	24,367
Bonds and notes payable.....	6,000,000
NONCURRENT:	
Compensated absences.....	231,505
Other post-employment benefits.....	1,817,003
Unamortized premium on bonds and notes payable.....	282,089
Bonds and notes payable.....	23,000,000
TOTAL LIABILITIES.....	33,357,714
NET ASSETS	
Invested in capital assets, net of related debt.....	15,742,741
Restricted for:	
Gifts and grants.....	181,510
Unrestricted.....	(264,395)
TOTAL NET ASSETS.....	\$ 15,659,856

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue</u>
Primary Government:				
<i>Governmental Activities:</i>				
Administration.....	\$ 647,714	\$ -	\$ -	\$ (647,714)
Instructional services.....	11,270,878	28,100	-	(11,242,778)
Other student services.....	2,159,374	781,114	-	(1,378,260)
Operation and maintenance.....	1,602,279	-	-	(1,602,279)
Fixed charges.....	6,147,104	-	-	(6,147,104)
Programs with other school districts..	1,678,685	-	-	(1,678,685)
Interest.....	980,173	-	-	(980,173)
 Total Governmental Activities.....	 \$ 24,486,207	 \$ 809,214	 \$ -	 \$ (23,676,993)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2009

	Primary Government
	Governmental Activities
Changes in net assets:	
Net (expense) revenue from previous page.....	\$ (23,676,993)
<i>General revenues:</i>	
Member town assessments.....	17,402,749
Massachusetts School Building Authority.....	7,570,381
Unrestricted investment income.....	326,465
Grants and contributions not restricted to specific programs.....	5,181,016
Miscellaneous.....	20,363
Total general revenues.....	<u>30,500,974</u>
Change in net assets.....	6,823,981
<i>Net Assets:</i>	
Beginning of year.....	<u>8,835,875</u>
End of year.....	\$ <u><u>15,659,856</u></u>
	(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2009

ASSETS	<u>General</u>	<u>Middle/High School Construction</u>	<u>School Choice Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 1,260,856	\$ 2,489,509	\$ 1,016,365	\$ 515,077	\$ 5,281,807
Receivables, net of uncollectibles:					
Intergovernmental.....	-	4,421,000	-	80,556	4,501,556
TOTAL ASSETS.....	<u>\$ 1,260,856</u>	<u>\$ 6,910,509</u>	<u>\$ 1,016,365</u>	<u>\$ 595,633</u>	<u>\$ 9,783,363</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 152,231	\$ 1,095,519	\$ -	\$ 41,728	\$ 1,289,478
Accrued payroll.....	199,556	1,506	-	13,925	214,987
Accrued interest on short-term debt.....	8,333	-	-	-	8,333
Other liabilities.....	19,067	-	-	-	19,067
Deferred revenues.....	-	4,421,000	-	-	4,421,000
Notes payable.....	-	5,000,000	-	-	5,000,000
TOTAL LIABILITIES.....	<u>379,187</u>	<u>10,518,025</u>	<u>-</u>	<u>55,653</u>	<u>10,952,865</u>
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations...	73,745	-	-	-	73,745
Debt service.....	215,243	-	-	-	215,243
Unreserved:					
Undesignated, reported in:					
General fund.....	592,681	-	-	-	592,681
Special revenue funds.....	-	-	1,016,365	501,703	1,518,068
Capital projects funds.....	-	(3,607,516)	-	38,277	(3,569,239)
TOTAL FUND BALANCES.....	<u>881,669</u>	<u>(3,607,516)</u>	<u>1,016,365</u>	<u>539,980</u>	<u>(1,169,502)</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 1,260,856</u>	<u>\$ 6,910,509</u>	<u>\$ 1,016,365</u>	<u>\$ 595,633</u>	<u>\$ 9,783,363</u>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2009

Total governmental fund balances.....		\$ (1,169,502)
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		39,234,207
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		4,421,000
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(450,885)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....	(24,000,000)	
Unamortized premium on bonds and notes payable.....	(306,456)	
Other post-employment benefits.....	(1,817,003)	
Compensated absences.....	<u>(251,505)</u>	
Net effect of reporting long-term liabilities.....		<u>(26,374,964)</u>
Net assets of governmental activities.....		<u>\$ 15,659,856</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2009

	General	State Fiscal Stabilization Fund	Middle/High School Construction	School Choice Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Member town assessments.....	\$ 17,402,749	\$ -	\$ -	\$ -	\$ -	\$ 17,402,749
Intergovernmental.....	3,316,678	180,715	3,149,381	753,012	826,940	8,226,726
Departmental and other.....	9,612	-	-	-	819,965	829,577
Contributions.....	-	-	-	-	103,671	103,671
Investment income.....	289,443	-	-	17,947	2,675	310,065
TOTAL REVENUES.....	21,018,482	180,715	3,149,381	770,959	1,753,251	26,872,788
EXPENDITURES:						
Current:						
Salaries:						
Administration.....	448,564	-	-	-	-	448,564
Instructional services.....	9,938,987	-	-	-	337,182	10,276,169
Other student services.....	554,885	-	-	-	249,487	804,372
Operation and maintenance.....	494,383	-	3,756	-	10,994	509,133
Fixed charges.....	20,000	-	-	-	2,677	22,677
Other operating expenditures:						
Administration.....	174,092	-	-	-	25,058	199,150
Instructional services.....	715,982	-	-	17,000	192,319	925,301
Other student services.....	568,023	-	-	-	709,407	1,277,430
Operation and maintenance.....	1,001,593	-	18,647,144	-	177,355	19,826,092
Fixed charges.....	4,113,378	180,715	-	-	13,331	4,307,424
Programs with other school districts.....	1,278,252	-	-	-	400,433	1,678,685
Debt service:						
Maturing debt.....	1,000,000	-	-	-	-	1,000,000
Interest.....	1,077,722	-	-	-	-	1,077,722
TOTAL EXPENDITURES.....	21,385,861	180,715	18,650,900	17,000	2,118,243	42,352,719
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(367,379)	-	(15,501,519)	753,959	(364,992)	(15,479,931)
OTHER FINANCING SOURCES (USES):						
Premium from issuance of bonds and notes.....	16,400	-	-	-	-	16,400
Transfers in.....	400,000	-	-	-	345,000	745,000
Transfers out.....	(130,000)	-	-	(400,000)	(215,000)	(745,000)
TOTAL OTHER FINANCING SOURCES (USES).....	286,400	-	-	(400,000)	130,000	16,400
NET CHANGE IN FUND BALANCES.....	(80,979)	-	(15,501,519)	353,959	(234,992)	(15,463,531)
FUND BALANCES AT BEGINNING OF YEAR.....	962,648	-	11,894,003	662,406	774,972	14,294,029
FUND BALANCES AT END OF YEAR.....	\$ 881,669	\$ -	\$ (3,607,516)	\$ 1,016,365	\$ 539,980	\$ (1,169,502)

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds..... \$ (15,463,531)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	18,612,569	
Depreciation expense.....	(133,782)	
Net effect of reporting capital assets.....		18,478,787

The net effect of other miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.....

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue..... 4,421,000

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Net change in capital lease financing.....	120,377	
Debt service principal payments.....	1,000,000	
Net effect of reporting long-term debt.....		1,120,377

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(13,198)	
Net change in other post-employment benefits.....	(1,817,003)	
Net change in accrued interest on long-term debt.....	16,115	
Net change in amortization of bond premiums.....	81,434	
Net effect of recording long-term liabilities and amortizing deferred losses....		<u>(1,732,652)</u>

Change in net assets of governmental activities..... \$ 6,823,981

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Agency Funds
ASSETS	
Cash and cash equivalents.....	\$ <u>18,243</u>
LIABILITIES	
Other liabilities.....	\$ <u>18,243</u>

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Manchester Essex Regional School District, (District) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The District was formed in 2001 under Chapter 71 of the Massachusetts General Laws that, by agreement, serves the Towns of Manchester-by-the-Sea and Essex (Member Towns). A seven-member School Committee governs the District, which consists of elected members from the member Towns.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions and institutions. The District has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the District (the primary government) and its component units. The District has no component units that require inclusion in these basic financial statements.

B. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* are primarily supported by member town assessments and intergovernmental revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding element for all governmental funds combined.

Additionally, any other governmental fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

Other items not identifiable as program revenues are reported as general revenues.

The effect of interfund activity has been removed from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Investment income is susceptible to accrual. Other receipts and revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *state fiscal stabilization fund* is used to account for federal grant funds received through the American Recovery and Reinvestment Act.

The *middle/high school construction fund* is a capital project fund used to account for the construction of the new high school and middle school facility.

The *school choice fund* is a special revenue fund used to account for activities related to the state's school choice program.

The nonmajor governmental funds consist of other special revenue and capital projects that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The fiduciary fund type *agency fund* is used to account for student activity assets that are held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

For the government-wide financial statements and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

Government-Wide Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, are reported in the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs with expected useful lives of greater than one year are capitalized at the date of acquisition or construction.

Capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Vehicles and equipment.....	7-15
Textbooks and library books.....	3-10
Modular classrooms.....	10

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities are reported in the statement of activities as “Transfers, net”.

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been restricted for “gifts and grants” which represent assets that have restrictions placed on them from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” which represent amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Debt service” represents amounts reserved to reduce future debt assessments for member communities.

K. Investment Income

Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

L. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

M. Fund Deficits

The middle/high school construction fund has a deficit of \$3,607,516 at June 30, 2009. The deficit will be funded by grant proceeds and the issuance of long-term debt.

There are several individual fund deficits within the nonmajor governmental funds. These deficits will be funded through grant proceeds and other available funds in fiscal year 2010.

N. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – CASH AND INVESTMENTS

The District maintains a cash and investment pool that is available for use by all Funds. Each Fund Type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth. In addition, there are various restrictions limiting the amount and length of deposits and investments.

Custodial Credit Risk – Deposits

In the case of deposits, this is risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for custodial credit risk is to review each bank's financial status and its ability to offer coverage through Federal Depository Insurance. At fiscal year-end, the carrying amount of deposits totaled \$5,300,050 and the bank balance totaled \$6,192,444. Of the bank balance, \$752,007 was covered by Federal Depository Insurance, \$4,819,700 was collateralized, and \$620,737 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 3 – RECEIVABLES

At June 30, 2009, receivables for the individual major and non-major governmental funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Intergovernmental.....	\$ 4,501,556	\$ -	\$ 4,501,556

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* in the governmental funds were as follows:

<u>Receivable type:</u>	<u>Other Governmental Funds</u>
Intergovernmental.....	\$ 4,421,000

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ 20,186,742	\$ 18,612,569	\$ -	\$ 38,799,311
Total capital assets not being depreciated.....	<u>20,186,742</u>	<u>18,612,569</u>	<u>-</u>	<u>38,799,311</u>
<u>Capital assets being depreciated:</u>				
Vehicles and equipment.....	278,553	-	-	278,553
Textbooks and library books.....	536,139	-	-	536,139
Modular classrooms.....	<u>439,297</u>	<u>-</u>	<u>-</u>	<u>439,297</u>
Total capital assets being depreciated.....	<u>1,253,989</u>	<u>-</u>	<u>-</u>	<u>1,253,989</u>
<u>Less accumulated depreciation for:</u>				
Vehicles and equipment.....	(153,303)	(33,642)	-	(186,945)
Textbooks and library books.....	(378,253)	(56,210)	-	(434,463)
Modular classrooms.....	<u>(153,755)</u>	<u>(43,930)</u>	<u>-</u>	<u>(197,685)</u>
Total accumulated depreciation.....	<u>(685,311)</u>	<u>(133,782)</u>	<u>-</u>	<u>(819,093)</u>
Total capital assets being depreciated, net.....	<u>568,678</u>	<u>(133,782)</u>	<u>-</u>	<u>434,896</u>
Total capital assets, net.....	<u>\$ 20,755,420</u>	<u>\$ 18,478,787</u>	<u>\$ -</u>	<u>\$ 39,234,207</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Instructional services.....	\$ 56,210
Other student services.....	<u>77,572</u>
Total depreciation expense - governmental activities.....	<u>\$ 133,782</u>

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2009 are summarized as follows:

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 130,000	\$ 130,000 (1)
School Choice.....	400,000	-	400,000 (2)
Stabilization Fund.....	<u> </u>	<u>215,000</u>	<u>215,000 (3)</u>
Total.....	<u>\$ 400,000</u>	<u>\$ 345,000</u>	<u>\$ 745,000</u>

- (1) Represents a budgeted transfer from the general fund to the stabilization fund.
- (2) Represents a budgeted transfer from school choice fund to the general fund.
- (3) Represents a budgeted transfer from the stabilization fund to the Essex boiler replacement capital project fund.

NOTE 6 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund.

At June 30, 2009, the District had the following short-term debt outstanding:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2008	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2009
BAN	School construction...	4.25	08/15/08	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -
BAN	School construction...	1.00	10/30/09	-	5,000,000	-	5,000,000 (1)
				<u>\$ 10,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 5,000,000</u>

(1) On October 30, 2009, the District renewed the \$5,000,000 BAN. The new BAN matured on January 15, 2010, carried an interest rate of 1.5% per annum and was paid-off at maturity with the proceeds of a school construction grant.

NOTE 7 – LONG-TERM DEBT

State law permits the District, under the provisions of Chapter 71, Section 16, to authorize indebtedness for capital acquisition and construction. Furthermore, written notice of the amount of debt authorized and the general purpose of the debt must be given to the Board of Selectmen in each of the member Town’s comprising the District.

Details related to the outstanding indebtedness at June 30, 2009, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
School Construction.....	4.1%	\$ 25,000,000	\$ -	\$ 1,000,000	\$ 24,000,000

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010.....	\$ 1,000,000	\$ 983,750	\$ 1,983,750
2011.....	1,000,000	948,750	1,948,750
2012.....	1,000,000	913,750	1,913,750
2013.....	1,000,000	863,750	1,863,750
2014.....	1,000,000	813,750	1,813,750
2015.....	1,000,000	778,750	1,778,750
2016.....	1,000,000	743,750	1,743,750
2017.....	1,000,000	693,750	1,693,750
2018.....	1,000,000	658,750	1,658,750
2019.....	1,000,000	622,500	1,622,500
2020.....	1,000,000	582,500	1,582,500
2021.....	1,000,000	532,500	1,532,500
2022.....	1,000,000	492,500	1,492,500
2023.....	1,000,000	452,500	1,452,500
2024.....	1,000,000	412,500	1,412,500
2025.....	1,000,000	372,500	1,372,500
2026.....	1,000,000	332,500	1,332,500
2027.....	1,000,000	292,500	1,292,500
2028.....	1,000,000	251,250	1,251,250
2029.....	1,000,000	210,000	1,210,000
2030.....	1,000,000	168,000	1,168,000
2031.....	1,000,000	126,000	1,126,000
2032.....	1,000,000	84,000	1,084,000
2033.....	1,000,000	42,000	1,042,000
Totals.....	\$ <u>24,000,000</u>	\$ <u>12,372,500</u>	\$ <u>36,372,500</u>

The Commonwealth enacted new legislation in fiscal 2004 that will provide a school construction grant to the District equal to 40% of approved school construction costs. Accordingly, the District has recorded a receivable totaling \$4.4 million, which is equal to 40% of eligible costs incurred through June 30, 2009.

The District is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2009, the District had \$24 million in authorized and unissued debt for the purpose of constructing a new high school and middle school facility.

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2009, the following changes occurred in long-term liabilities:

	Balance June 30, 2008	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2009	Current Portion
Compensated absences.....	\$ 238,307	\$ -	\$ 13,198	\$ 251,505	\$ 20,000
Other post employment benefits.....	-	-	1,817,003	1,817,003	-
Unamortized premium on bonds and notes payable...	387,890	-	(81,434)	306,456	24,367
Long-term bonds and notes.....	<u>25,000,000</u>	<u>(1,000,000)</u>	<u>-</u>	<u>24,000,000</u>	<u>1,000,000</u>
Total.....	<u>\$ 25,626,197</u>	<u>\$ (1,000,000)</u>	<u>\$ 1,748,767</u>	<u>\$ 26,374,964</u>	<u>\$ 1,044,367</u>

NOTE 8 – RISK FINANCING

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District participates in premium-based health care plans for its active employees and its retirees'.

NOTE 9 – PENSION PLAN

Plan Description - The District contributes to the Essex Regional Retirement System (System), a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement Board. School teachers and certain administrators are members of the Commonwealth of Massachusetts' Teachers Contributory Retirement System (MTCRS), to which the School does not contribute. Contributions to the MTCRS are funded by the Commonwealth of Massachusetts (the Commonwealth). The amount of these on-behalf payments totaled approximately \$1,647,000 for the fiscal year ended June 30, 2009 and, accordingly, is reported in the general fund as intergovernmental revenues and District expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth. Cost-of-living adjustments granted after 1997 must be approved by the System and are borne by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 491 Maple Street, Danvers, Massachusetts 01923.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The District is required to pay into the System its share of the system wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the District are governed by Chapter 32 of the MGL. The District's contributions to the System for the fiscal years ended June 30, 2009, 2008, and 2007 were \$312,912, \$302,574, and \$283,956, respectively, which equaled its required contribution for each fiscal year.

The schedule of funding progress, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, following the notes to the basic financial

statements, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the School is one participating employer, as well as the School's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the School.

NOTE 10 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Fiscal year 2009 is the initial year that the District has implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45). As allowed by GASB 45, the District has established the net Other Post Employment Benefits (OPEB) obligation at zero at the beginning of the transition year and has applied the measurement and recognition requirements of GASB 45 on a prospective basis.

Plan Description – The Manchester Essex Regional School District administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the District’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the District and the unions representing District employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the District and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The District contributes 75% to 85% of the cost of current-year premiums, based on retiree age, for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 15% to 25% of their premium costs.

Annual OPEB Cost and Net OPEB Obligation – The District’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation are summarized in the following table:

Normal cost.....	\$	1,339,210
Amortization of unfunded actuarial accrued liability.....		789,592
Compound Interest at Year End.....		<u>77,368</u>
Annual OPEB cost (expense).....		2,206,170
Contributions made.....		<u>(389,167)</u>
Increase in net OPEB obligation.....		1,817,003
Net OPEB obligation--beginning of year.....		<u>-</u>
Net OPEB obligation--end of year.....	\$	<u><u>1,817,003</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$ 2,206,170	18%	\$ 1,817,003

Funded Status and Funding Progress – As of 7/1/08, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$19.3 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$10.5 million, and the ratio of the UAAL to the covered payroll was 184%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the 7/1/08, actuarial valuation, actuarial liabilities were determined using the entry age normal cost method. The actuarial assumptions included a 4% investment return assumption, which is based on the expected yield on the assets of the District, calculated based on the funded level of the plan at the valuation date, and an annual medical trend rate of 9% initially, graded to 5% over 5 years. The UAAL is being amortized over a 30 year period. The remaining amortization period at June 30, 2009 is 29 years.

NOTE 11 – COMMITMENTS

The District has currently expended approximately \$38.8 million towards the planning, design and construction of the new high school and middle school facility for which \$49 million in debt has been authorized.

NOTE 12 – CONTINGENCIES

The District participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2009, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2009, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2009.

NOTE 13 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2009, the following GASB pronouncements were implemented:

- The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2009. This pronouncement required additional disclosure and impacted the basic financial statements.
- The GASB issued Statement #52, *Land and Other Real Estate Held as Investments by Endowments*, which is required to be implemented in fiscal year 2009. This pronouncement did not require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #53, *Accounting and Financial Reporting for Derivative Instruments*, which is required to be implemented in fiscal year 2010. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issued Statement #55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in fiscal year 2009. This pronouncement did not require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which is required to be implemented in fiscal year 2009. This pronouncement did not require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is required to be implemented in fiscal year 2012. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issued Statement #58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which is required to be implemented in fiscal year 2010. Management elected to implement this standard early and this standard did not impact the basic financial statements.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2009

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Member town assessments..... \$	-	\$ 17,411,717	\$ 17,411,717	\$ 17,411,717
Intergovernmental.....	-	1,777,850	1,777,850	1,777,850
Departmental and other.....	-	21,625	21,625	21,625
Investment income.....	-	100,000	100,000	100,000
TOTAL REVENUES.....	-	19,311,192	19,311,192	19,311,192
EXPENDITURES:				
Current:				
Salaries:				
Administration.....	-	443,235	443,235	445,185
Instructional services.....	-	9,763,882	9,763,882	9,785,293
Other student services.....	-	513,046	513,046	518,029
Operation and maintenance.....	-	463,180	463,180	470,872
Fixed charges.....	-	20,000	20,000	20,000
Collective bargaining reserve.....	-	350,000	350,000	325,162
Other operating expenditures:				
Administration.....	2,450	175,800	178,250	178,250
Instructional services.....	102,666	900,146	1,002,812	991,614
Other student services.....	264	493,307	493,571	493,571
Operation and maintenance.....	91,382	959,615	1,050,997	1,050,997
Fixed charges.....	-	2,809,891	2,809,891	2,695,891
Programs with other school districts.....	-	1,010,000	1,010,000	1,124,000
Debt service:				
Maturing debt.....	-	1,000,000	1,000,000	1,000,000
Interest.....	-	1,441,389	1,441,389	1,441,389
TOTAL EXPENDITURES.....	196,762	20,343,491	20,540,253	20,540,253
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(196,762)	(1,032,299)	(1,229,061)	(1,229,061)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	787,299	787,299	787,299
Transfers out.....	-	(130,000)	(130,000)	(130,000)
TOTAL OTHER FINANCING SOURCES (USES)...	-	657,299	657,299	657,299
NET CHANGE IN FUND BALANCE.....	(196,762)	(375,000)	(571,762)	(571,762)
BUDGETARY FUND BALANCE, Beginning of year.....	-	1,334,648	1,334,648	1,334,648
BUDGETARY FUND BALANCE, End of year..... \$	(196,762)	\$ 959,648	\$ 762,886	\$ 762,886

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	17,402,749	\$ -	\$ (8,968)
	1,669,678	-	(108,172)
	9,612	-	(12,013)
	289,443	-	189,443
	<u>19,371,482</u>	<u>-</u>	<u>60,290</u>
	448,564	-	(3,379)
	9,938,987	-	(153,694)
	554,885	-	(36,856)
	494,383	-	(23,511)
	20,000	-	-
	-	-	325,162
	174,092	4,663	(505)
	715,982	52,686	222,946
	568,023	3,700	(78,152)
	1,001,593	12,696	36,708
	2,466,378	-	229,513
	1,278,252	-	(154,252)
	1,000,000	-	-
	<u>1,441,389</u>	<u>-</u>	<u>-</u>
	<u>20,102,528</u>	<u>73,745</u>	<u>363,980</u>
	<u>(731,046)</u>	<u>(73,745)</u>	<u>424,270</u>
	400,000	-	(387,299)
	<u>(130,000)</u>	<u>-</u>	<u>-</u>
	<u>286,400</u>	<u>-</u>	<u>(370,899)</u>
	(444,646)	(73,745)	53,371
	<u>1,334,648</u>	<u>-</u>	<u>-</u>
\$	<u>890,002</u>	<u>(73,745)</u>	<u>53,371</u>

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the District is one participating employer, as well as the District's proportionate share of the plan's annual contributions.

ESSEX REGIONAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/92	\$ 61,357,800	\$ 143,785,900	\$ 82,428,100	42.7%	\$ 52,995,500	155.5%
01/01/94	80,878,500	178,256,800	97,378,300	45.4%	62,076,500	156.9%
01/01/96	106,176,700	200,397,500	94,220,800	53.0%	72,953,200	129.2%
01/01/98	151,293,900	245,965,100	94,671,200	61.5%	85,785,000	110.4%
01/01/99	180,034,700	268,386,000	88,351,300	67.1%	89,645,300	98.6%
01/01/00	190,363,700	253,847,100	63,483,400	75.0%	69,525,900	91.3%
01/01/02	218,346,198	287,390,715	69,044,517	76.0%	85,005,338	81.2%
01/01/04	229,852,971	333,396,222	103,543,251	68.9%	93,404,002	110.9%
01/01/06	261,327,047	376,034,621	114,707,574	69.5%	98,641,094	116.3%
01/01/08	301,420,965	445,171,554	143,750,589	67.7%	111,726,856	128.7%

The District's share of the UAAL, as of January 1, 2008, is approximately 2%.

See notes to required supplementary information.

ESSEX REGIONAL RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Year Ended December 31	System Wide			Manchester Essex Regional School District	
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Actual Contributions	District Contributions as a Percentage of Actual Contributions
2004	\$ 12,223,776	\$ 12,223,776	100%	\$ 250,347	2.05%
2005	13,080,011	13,080,011	100%	245,203	1.87%
2006	16,622,274	16,622,274	100%	283,956	1.71%
2007	15,788,864	15,788,864	100%	302,574	1.92%
2008	15,601,671	15,601,671	100%	312,912	2.01%

The District's actual contributions equaled 100% of its required contributions for each year presented.

See notes to required supplementary information.

Other Post-Employment Benefit Plan Schedules

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions compares, over time, the actuarial required contributions with the actual contributions made.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2008	\$ -	\$ 19,340,378	\$ 19,340,378	0.0%	\$ 10,526,801	183.7%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2009	\$ 2,206,170	\$ 389,167	18%

The District implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009. Information for prior years is not available.

See notes to required supplementary information.

OTHER POST-EMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date..... 7/1/2008
Actuarial cost method..... Entry Age Normal
Remaining amortization period..... 29 Years (as of June 30, 2009), closed

Actuarial Assumptions:

Investment rate of return..... 4.0%
2009 medical trend rate..... 9.0%
Ultimate medical trend rate..... 5.0%
Year ultimate medical trend rate reached..... 2013

Plan Membership:

Current retirees, beneficiaries, and dependents.....	70
Current active members.....	<u>201</u>
 Total.....	 <u><u>271</u></u>

See notes to required supplementary information.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY1. Budgetary Information

The District adopts a balanced budget that is approved by the Committee. The Superintendent of Schools presents an annual budget to the Committee, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Committee, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote. Increases in the budget subsequent to the approval of the annual budget require majority Committee approval.

The majority of the District's appropriations are non-continuing which lapse at the end of the fiscal year.

The District adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2009 approved budget for the General Fund authorized \$20.7 million in appropriations. The District did not approve any supplemental appropriations during the fiscal year.

The District's accounting office has the responsibility to ensure that budgetary control is maintained on a bottom line, total budget basis. Budgetary control is exercised through the District's accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2009, is presented below:

Net change in fund balance, budgetary basis.....	\$	(444,646)
<u>Basis of accounting differences:</u>		
Net change in recording accrued interest.....		363,667
Recognition of revenue for on-behalf payments.....		1,647,373
Recognition of expenditures for on-behalf payments.....		<u>(1,647,373)</u>
Excess of revenues and other financing sources net change in fund balance, GAAP basis.....	\$	<u><u>(80,979)</u></u>

NOTE B – PENSION PLAN

Actuarial Methods and Assumptions:

Valuation Date.....	January 1, 2008
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Increasing at 4.5% per year, level dollar for ERI liability for certain units
Remaining Amortization Period.....	20 years remaining as of July 1, 2008
Asset Valuation Method.....	A preliminary actuarial value is first determined by taking the actuarial value of assets at the beginning of the year and adding assumed investment earnings and the net new money during the year. Twenty percent of the difference between the market value of assets and the preliminary actuarial value is added to the preliminary actuarial value. In order that the actuarial value not differ too significantly from the market value of assets, the final actuarial value of assets must be within 20% of the market value of assets.

Actuarial Assumptions:

Investment rate of return.....	8.50%
Projected salary increases.....	5.00%
Cost of living adjustments.....	3.0% for the first \$12,000 of retirement income

Plan Membership:

Retired participants and beneficiaries receiving benefits.....	1,568
Inactive participants entitled to a return of their employee contributions.....	880
Inactive participants with a vested right to a deferred or immediate benefit.....	65
Active participants.....	<u>3,139</u>
Total.....	<u><u>5,652</u></u>

NOTE C – OTHER POST-EMPLOYMENT BENEFITS PLAN

The District administers a single-employer defined benefit healthcare plan (“The Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the District’s group health insurance plan, which covers both active and retired members.

The District currently finances its other post-employment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the District has recorded its OPEB cost equal to the actuarially determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress and Employer Contributions presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets and the actuarial required contributions with the actual contributions made. Since this is the District’s initial year of implementation of GASB Statement 45, information for prior years is not available.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.