

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

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

FISCAL YEAR ENDED JUNE 30, 2011

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

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Independent Auditors' Report

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

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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, 2011, 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, 2011, 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 30, 2012, 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 postemployment benefits schedule of funding progress and employer contributions and other postemployment 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 30, 2012

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, 2011. 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, pension and other postemployment benefits.

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 \$14.6 million at the close of fiscal year 2011.

Net assets of \$16.9 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 \$180,000 represent the unexpended balances of state and federal grants and gifts.

The remaining balance of unrestricted net assets is reporting a deficit balance totaling \$2.5 million that is primarily due to GASB 45, which required the recognition of a \$5.4 million other postemployment benefits (OPEB) liability.

| | 2011 | 2010 |
|--|----------------------|----------------------|
| Assets: | | |
| Current assets..... | \$ 5,068,701 | \$ 5,456,035 |
| Capital assets..... | 47,935,418 | 48,117,853 |
| Total assets..... | 53,004,119 | 53,573,888 |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 1,589,703 | 1,707,258 |
| Noncurrent liabilities (excluding debt)..... | 5,702,861 | 4,025,958 |
| Current debt..... | 5,283,112 | 5,286,102 |
| Noncurrent debt..... | 25,841,875 | 27,124,987 |
| Total liabilities..... | 38,417,551 | 38,144,305 |
| Net Assets: | | |
| Capital assets net of related debt..... | 16,933,805 | 16,605,842 |
| Restricted..... | 180,467 | 110,078 |
| Unrestricted..... | (2,527,704) | (1,286,337) |
| Total net assets..... | \$ 14,586,568 | \$ 15,429,583 |

Governmental activities decreased the District's net assets by \$843,000. The following table shows the key elements of this decrease:

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Program revenues: | | |
| Charges for services..... | \$ 1,148,767 | \$ 1,144,395 |
| General Revenues: | | |
| Member town assessments..... | 19,196,328 | 18,175,643 |
| Massachusetts School Building Authority..... | - | 627,479 |
| Nonrestricted grants..... | 5,800,416 | 5,631,884 |
| Gain on sale of capital assets..... | 96,298 | - |
| Unrestricted investment income..... | 71,612 | 276,940 |
| Other revenues..... | 31,666 | 121,623 |
| Total revenues..... | 26,345,087 | 25,977,964 |
| Expenses: | | |
| Administration..... | 611,634 | 715,350 |
| Instructional services..... | 11,946,757 | 11,864,556 |
| Other student services..... | 2,229,049 | 2,157,845 |
| Operations and maintenance..... | 1,547,381 | 1,550,017 |
| Fixed charges..... | 7,039,769 | 6,699,352 |
| Programs with other districts..... | 1,372,921 | 1,263,022 |
| Interest..... | 1,089,100 | 1,239,856 |
| Depreciation..... | 1,351,491 | 718,239 |
| Total expenses..... | 27,188,102 | 26,208,237 |
| Change in net assets..... | \$ (843,015) | \$ (230,273) |

Revenue increased by \$367,000 (1%) during the year, which is primarily due to a \$1 million increase in member town assessments, a \$169,000 increase in grant revenue, offset by a \$627,000 decrease in Massachusetts School Building Authority reimbursements and a decrease in investment income.

Expenses increased by \$980,000 (4%) during the year, which is primarily due to a \$340,000 increase in fixed charges, which is attributable to increases in health insurance and teachers retirement benefits, as well as a \$633,000 increase in depreciation which is attributable to a full year of depreciation expense being incurred on the new middle/high school building.

The decrease in net assets of \$843,000 was primarily due to a \$1.7 million increase in the OPEB liability, which was offset by a \$321,000 increase in the school choice fund, a \$206,000 increase in the nonmajor governmental funds and the receipt of a \$272,000 photovoltaic grant for the middle/high school construction project.

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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fiscal year 2011 was the District's initial year of implementation of GASB #54, Fund Balance Reporting and Governmental Fund Type Definitions. The implementation of this standard has changed the fund balance components into nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the District's stabilization fund is reported within the general fund as unassigned.

As of the end of the current fiscal year, governmental funds reported a combined ending fund balance deficit of (\$21,000), a decrease of \$309,000 in comparison with the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$583,000, while total fund balance is \$1.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 2% of total general fund expenditures, while total fund balance represents 5% of that same amount.

The general fund decreased by \$60,000 in fiscal year 2011, which was primarily due to the planned use of \$200,000 in excess and deficiency to balance the budget, which was offset by favorable budgetary results.

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 \$3.9 million. This is due to the fact that the project has not yet been fully 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 \$1.6 million.

Capital Asset and Debt Administration

The District has \$4 million in governmental bond anticipation notes outstanding at year-end that are due on August 19, 2011 and carries an interest rate of 1.25% per annum. On August 19, 2011, the District renewed the \$4 million BAN. The new BAN matured on February 17, 2012 and carries an interest rate of 1.25 % per annum. On February 17, 2012, the District renewed the \$4 million BAN. The new BAN matures on August 17, 2012 and carries an interest rate of .85% per annum.

The District has \$26.8 million in long-term bonds outstanding at year-end to fund the middle/high school construction project. The Commonwealth enacted new legislation in fiscal 2004 that has provided a school construction grant to the District equal to 40% of approved school construction costs. The District did not receive any grant payments in fiscal year 2011 from the MSBA.

Major capital events during the current fiscal year consisted of \$1 million of building and improvement additions relating to the completion of the new middle/high school construction project. There was also \$140,000 of additions for the purchase of various vehicles, equipment and textbooks. The District also disposed of four school busses during the fiscal year as a result of the outsourcing of transportation services.

Please refer to notes 3, 5 and 6 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, 2011

| | Primary Government |
|--|------------------------------------|
| | Governmental Activities |
| ASSETS | |
| CURRENT: | |
| Cash and cash equivalents..... | \$ 5,026,974 |
| Internal balances..... | 41,727 |
| NONCURRENT: | |
| Capital assets, net of accumulated depreciation: | |
| Depreciable..... | 47,935,418 |
| TOTAL ASSETS..... | 53,004,119 |
| LIABILITIES | |
| CURRENT: | |
| Warrants payable..... | 1,060,699 |
| Accrued payroll..... | 6,045 |
| Accrued interest..... | 479,740 |
| Other liabilities..... | 23,219 |
| Compensated absences..... | 20,000 |
| Unamortized premium on bonds and notes payable..... | 33,112 |
| Notes payable..... | 4,000,000 |
| Bonds payable..... | 1,250,000 |
| NONCURRENT: | |
| Compensated absences..... | 274,982 |
| Other postemployment benefits..... | 5,427,879 |
| Unamortized premium on bonds and notes payable..... | 341,875 |
| Bonds payable..... | 25,500,000 |
| TOTAL LIABILITIES..... | 38,417,551 |
| NET ASSETS | |
| Invested in capital assets, net of related debt..... | 16,933,805 |
| Restricted for: | |
| Gifts and grants..... | 180,467 |
| Unrestricted..... | (2,527,704) |
| TOTAL NET ASSETS..... | \$ 14,586,568 |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

| | | Program Revenues | |
|---|---------------|----------------------|-----------------------|
| Functions/Programs | Expenses | Charges for Services | Net (Expense) Revenue |
| Primary Government: | | | |
| Governmental Activities: | | | |
| Administration..... | \$ 611,634 | \$ - | \$ (611,634) |
| Instructional services..... | 11,946,757 | 64,400 | (11,882,357) |
| Other student services..... | 2,229,049 | 1,084,367 | (1,144,682) |
| Operation and maintenance..... | 1,547,381 | - | (1,547,381) |
| Fixed charges..... | 7,039,769 | - | (7,039,769) |
| Programs with other school districts..... | 1,372,921 | - | (1,372,921) |
| Interest..... | 1,089,100 | - | (1,089,100) |
| Depreciation..... | 1,351,491 | - | (1,351,491) |
| Total Governmental Activities..... | \$ 27,188,102 | \$ 1,148,767 | \$ (26,039,335) |

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2011

| | Primary Government |
|---|----------------------------|
| | Governmental Activities |
| Changes in net assets: | |
| Net (expense) revenue from previous page..... | \$ (26,039,335) |
| <i>General revenues:</i> | |
| Member town assessments..... | 19,196,328 |
| Unrestricted investment income..... | 71,612 |
| Grants and contributions not restricted to specific programs..... | 5,800,416 |
| Gain on sale of capital assets..... | 96,298 |
| Miscellaneous..... | 31,666 |
| Total general revenues..... | 25,196,320 |
| Change in net assets..... | (843,015) |
| <i>Net Assets:</i> | |
| Beginning of year..... | 15,429,583 |
| End of year..... | \$ 14,586,568 |
| | (Concluded) |

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

| | General | Middle/High School Construction | School Choice Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------------------------|--------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents..... | \$ 1,792,261 | \$ 544,454 | \$ 1,616,835 | \$ 1,073,424 | \$ 5,026,974 |
| Due from other funds..... | 41,727 | - | - | - | 41,727 |
| TOTAL ASSETS..... | \$ 1,833,988 | \$ 544,454 | \$ 1,616,835 | \$ 1,073,424 | \$ 5,068,701 |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES: | | | | | |
| Warrants payable..... | \$ 584,107 | \$ 421,080 | \$ - | \$ 55,512 | \$ 1,060,699 |
| Accrued payroll..... | 4,545 | - | - | 1,500 | 6,045 |
| Other liabilities..... | 23,219 | - | - | - | 23,219 |
| Notes payable..... | - | 4,000,000 | - | - | 4,000,000 |
| TOTAL LIABILITIES..... | 611,871 | 4,421,080 | - | 57,012 | 5,089,963 |
| FUND BALANCES: | | | | | |
| Restricted..... | 438,448 | - | 1,616,835 | 1,032,500 | 3,087,783 |
| Assigned..... | 200,219 | - | - | - | 200,219 |
| Unassigned..... | 583,450 | (3,876,626) | - | (16,088) | (3,309,264) |
| TOTAL FUND BALANCES..... | 1,222,117 | (3,876,626) | 1,616,835 | 1,016,412 | (21,262) |
| TOTAL LIABILITIES AND FUND BALANCES.... | \$ 1,833,988 | \$ 544,454 | \$ 1,616,835 | \$ 1,073,424 | \$ 5,068,701 |

See notes to basic financial statements.

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

JUNE 30, 2011

| | |
|---|----------------------|
| Total governmental fund balances..... | \$ (21,262) |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | 47,935,418 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | (479,740) |
| 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..... | (26,750,000) |
| Unamortized premium on bonds and notes payable..... | (374,987) |
| Other postemployment benefits..... | (5,427,879) |
| Compensated absences..... | <u>(294,982)</u> |
| Net effect of reporting long-term liabilities..... | <u>(32,847,848)</u> |
| Net assets of governmental activities..... | <u>\$ 14,586,568</u> |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

| | General | Middle/High School Construction | School Choice Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------------------------|--------------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | | |
| Member town assessments..... | \$ 19,196,328 | \$ - | \$ - | \$ - | \$ 19,196,328 |
| Intergovernmental..... | 3,861,614 | 271,824 | 654,244 | 892,765 | 5,680,447 |
| Departmental and other..... | 6,139 | - | - | 1,174,294 | 1,180,433 |
| Contributions..... | - | - | - | 119,969 | 119,969 |
| Investment income..... | 30,325 | 12 | 16,727 | 3,187 | 50,251 |
| TOTAL REVENUES..... | 23,094,406 | 271,836 | 670,971 | 2,190,215 | 26,227,428 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Salaries: | | | | | |
| Administration..... | 462,364 | - | - | - | 462,364 |
| Instructional services..... | 10,394,535 | - | - | 537,784 | 10,932,319 |
| Other student services..... | 552,957 | - | - | 274,875 | 827,832 |
| Operation and maintenance..... | 541,218 | - | - | 23,568 | 564,786 |
| Fixed charges..... | 23,781 | - | - | - | 23,781 |
| Other operating expenditures: | | | | | |
| Administration..... | 131,665 | - | - | 47,709 | 179,374 |
| Instructional services..... | 823,294 | - | - | 248,486 | 1,071,780 |
| Other student services..... | 691,758 | - | - | 709,459 | 1,401,217 |
| Operation and maintenance..... | 1,013,418 | 1,047,540 | - | - | 2,060,958 |
| Fixed charges..... | 5,294,972 | - | - | 47,360 | 5,342,332 |
| Programs with other school districts..... | 1,277,921 | - | - | 95,000 | 1,372,921 |
| Debt service: | | | | | |
| Maturing debt..... | 1,250,000 | - | - | - | 1,250,000 |
| Interest..... | 1,164,056 | - | - | - | 1,164,056 |
| TOTAL EXPENDITURES..... | 23,621,939 | 1,047,540 | - | 1,984,241 | 26,653,720 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | (527,533) | (775,704) | 670,971 | 205,974 | (426,292) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Premium from issuance of bonds and notes..... | 21,361 | - | - | - | 21,361 |
| Sale of capital assets..... | 96,298 | - | - | - | 96,298 |
| Transfers in..... | 350,000 | - | - | - | 350,000 |
| Transfers out..... | - | - | (350,000) | - | (350,000) |
| TOTAL OTHER FINANCING SOURCES (USES)... | 467,659 | - | (350,000) | - | 117,659 |
| NET CHANGE IN FUND BALANCES..... | (59,874) | (775,704) | 320,971 | 205,974 | (308,633) |
| FUND BALANCES AT BEGINNING OF YEAR, AS REVISED..... | 1,281,991 | (3,100,922) | 1,295,864 | 810,438 | 287,371 |
| FUND BALANCES AT END OF YEAR..... | \$ 1,222,117 | \$ (3,876,626) | \$ 1,616,835 | \$ 1,016,412 | \$ (21,262) |

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, 2011

| | | |
|---|----|-----------|
| Net change in fund balances - total governmental funds..... | \$ | (308,633) |
|---|----|-----------|

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..... | 1,169,056 | |
| Depreciation expense..... | <u>(1,351,491)</u> | |

| | | |
|---|--|-----------|
| Net effect of reporting capital assets..... | | (182,435) |
|---|--|-----------|

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.

| | | |
|--------------------------------------|--|-----------|
| Debt service principal payments..... | | 1,250,000 |
|--------------------------------------|--|-----------|

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..... | (3,247) | |
| Net change in other postemployment benefits..... | (1,673,656) | |
| Net change in accrued interest on long-term debt..... | 38,854 | |
| Net change in amortization of bond premiums..... | <u>36,102</u> | |

| | | |
|---|--|--------------------|
| Net effect of recording long-term liabilities and amortizing deferred losses... | | <u>(1,601,947)</u> |
|---|--|--------------------|

| | | |
|--|----|-------------------------|
| Change in net assets of governmental activities..... | \$ | <u><u>(843,015)</u></u> |
|--|----|-------------------------|

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

| | <u>Agency Funds</u> |
|---|-------------------------|
| ASSETS | |
| CURRENT: | |
| Receivables, net of allowance for uncollectibles: | |
| Departmental and other..... | \$ <u>41,838</u> |
| LIABILITIES | |
| Warrants payable..... | 111 |
| Due to other funds..... | <u>41,727</u> |
| TOTAL LIABILITIES..... | \$ <u>41,838</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 *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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

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 payroll deductions 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 buildings and improvements, vehicles and equipment, text and library books, and modular classrooms, 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> |
|----------------------------------|---|
| Buildings and improvements..... | 40 |
| 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 reported as "invested in capital assets, net of related debt" include capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state's school building program is not considered to be capital related debt.

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)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

"Nonspendable" fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

"Restricted" fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

"Committed" fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

"Assigned" fund balance includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

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 \$3,876,626 at June 30, 2011. 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 2012.

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 \$5,026,974 and the bank balance totaled \$5,922,470. Of the bank balance, \$662,554 was covered by Federal Depository Insurance and \$5,259,916 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------|-----------|-------------------|
| Governmental Activities: | | | | |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings and improvements..... | \$ 48,401,196 | \$ 1,028,628 | \$ - | \$ 49,429,824 |
| Vehicles and equipment..... | 278,553 | 79,839 | (238,320) | 120,072 |
| Textbooks and library books..... | 536,139 | 60,589 | - | 596,728 |
| Modular classrooms..... | 439,297 | - | - | 439,297 |
| Total capital assets being depreciated..... | 49,655,185 | 1,169,056 | (238,320) | 50,585,921 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings and improvements..... | (614,293) | (1,241,445) | - | (1,855,738) |
| Vehicles and equipment..... | (213,407) | (40,113) | 238,320 | (15,200) |
| Textbooks and library books..... | (468,017) | (26,003) | - | (494,020) |
| Modular classrooms..... | (241,615) | (43,930) | - | (285,545) |
| Total accumulated depreciation..... | (1,537,332) | (1,351,491) | 238,320 | (2,650,503) |
| Total capital assets, net..... | \$ 48,117,853 | \$ (182,435) | \$ - | \$ 47,935,418 |

Depreciation expense was not allocated to governmental functions and appears unallocated on the statement of activities.

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2011, the District had an interfund receivable and payable between the general fund and the agency fund totaling \$41,727.

Interfund transfers for the fiscal year ended June 30, 2011 are summarized as follows:

| <u>Transfers Out:</u> | | <u>Transfers In:</u> |
|-----------------------|----|----------------------|
| | | <u>General Fund</u> |
| School Choice..... | \$ | <u>350,000 (1)</u> |

(1) Represents a budgeted transfer from the school choice revolving fund to the general fund.

NOTE 5 – 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, 2011, the District had the following short-term debt outstanding:

| Type | Purpose | Rate (%) | Due Date | Balance at June 30, 2010 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2011 |
|------------|------------------------|----------|----------|--------------------------|-----------------|-------------------|--------------------------|
| BAN | School construction... | 1.00 | 12/17/10 | \$ 4,000,000 | \$ - | \$ 4,000,000 | \$ - |
| BAN | School construction... | 1.25 | 08/19/11 | - | 4,000,000 | - | 4,000,000 (1) |
| Total..... | | | | \$ 4,000,000 | \$ 4,000,000 | \$ 4,000,000 | \$ 4,000,000 |

- (1) On August 19, 2011, the District renewed the \$4 million BAN that came due. The BAN matured on February 17, 2012 and carries an interest rate of 1.25% per annum. On February 17, 2012, the District renewed the \$4 million BAN that came due. The new BAN matures on August 17, 2012 and carries an interest rate of .85% per annum.

NOTE 6 – 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, 2011, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

| Project | Interest Rate (%) | Outstanding at June 30, 2010 | Issued | Redeemed | Outstanding at June 30, 2011 |
|---------------------------------------|-------------------|------------------------------|-------------|---------------------|------------------------------|
| School Construction..... | 4.1% | \$ 23,000,000 | \$ - | \$ 1,000,000 | \$ 22,000,000 |
| School Construction..... | 2.0 - 4.0% | 5,000,000 | - | 250,000 | 4,750,000 |
| Total governmental bonds payable..... | | <u>\$ 28,000,000</u> | <u>\$ -</u> | <u>\$ 1,250,000</u> | <u>\$ 26,750,000</u> |

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

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------------|----------------------|----------------------|
| 2012..... | \$ 1,250,000 | \$ 1,076,250 | \$ 2,326,250 |
| 2013..... | 1,250,000 | 1,021,250 | 2,271,250 |
| 2014..... | 1,250,000 | 966,250 | 2,216,250 |
| 2015..... | 1,250,000 | 926,250 | 2,176,250 |
| 2016..... | 1,250,000 | 886,250 | 2,136,250 |
| 2017..... | 1,250,000 | 828,750 | 2,078,750 |
| 2018..... | 1,250,000 | 786,250 | 2,036,250 |
| 2019..... | 1,250,000 | 742,500 | 1,992,500 |
| 2020..... | 1,250,000 | 692,500 | 1,942,500 |
| 2021..... | 1,250,000 | 632,500 | 1,882,500 |
| 2022..... | 1,250,000 | 582,500 | 1,832,500 |
| 2023..... | 1,250,000 | 532,500 | 1,782,500 |
| 2024..... | 1,250,000 | 482,500 | 1,732,500 |
| 2025..... | 1,250,000 | 432,500 | 1,682,500 |
| 2026..... | 1,250,000 | 382,500 | 1,632,500 |
| 2027..... | 1,250,000 | 332,500 | 1,582,500 |
| 2028..... | 1,250,000 | 281,250 | 1,531,250 |
| 2029..... | 1,250,000 | 230,000 | 1,480,000 |
| 2030..... | 1,250,000 | 178,000 | 1,428,000 |
| 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>\$ 26,750,000</u> | <u>\$ 12,245,000</u> | <u>\$ 38,995,000</u> |

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, 2011, the District had \$19 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, 2011, the following changes occurred in long-term liabilities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|--|----------------------|---------------------|-----------------------|----------------------|---------------------|
| Compensated absences..... | \$ 291,735 | \$ 23,247 | \$ (20,000) | \$ 294,982 | \$ 20,000 |
| Other postemployment benefits..... | 3,754,223 | 2,084,573 | (410,917) | 5,427,879 | - |
| Unamortized premium on bonds and notes payable..... | 411,089 | - | (36,102) | 374,987 | 33,112 |
| Long-term bonds and notes..... | 28,000,000 | - | (1,250,000) | 26,750,000 | 1,250,000 |
| Total..... | <u>\$ 32,457,047</u> | <u>\$ 2,107,820</u> | <u>\$ (1,717,019)</u> | <u>\$ 32,847,848</u> | <u>\$ 1,303,112</u> |

NOTE 7 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The District has adopted GASB 54 as part of its fiscal year 2011 reporting. Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

In accordance with Statement No. 54, the stabilization fund has been reported in the general fund, and accordingly, the general fund beginning balance increased by \$167,290 and totals \$1,281,991.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose

As of June 30, 2011, the governmental fund balances consisted of the following:

| | Governmental Funds | | | | |
|--|--------------------|---------------------------------------|--------------------------|-----------------------------------|--------------------------------|
| | General | Middle/High School Construction | School Choice Fund | Nonmajor Governmental Funds | Total Governmental Funds |
| Fund Balances | | | | | |
| Restricted for: | | | | | |
| School choice..... | \$ - | \$ - | \$ 1,616,835 | \$ - | \$ 1,616,835 |
| School lunch..... | - | - | - | 1,508 | 1,508 |
| Gifts & privat grant funds..... | - | - | - | 21,631 | 21,631 |
| State & federal grant funds..... | - | - | - | 158,836 | 158,836 |
| Student activity funds..... | - | - | - | 148,450 | 148,450 |
| Athletic funds..... | - | - | - | 199,925 | 199,925 |
| MS/HS maintenance funds..... | - | - | - | 303,445 | 303,445 |
| Other special revenue funds..... | - | - | - | 186,705 | 186,705 |
| Other capital project funds..... | - | - | - | 12,000 | 12,000 |
| Debt service..... | 274,838 | - | - | - | 274,838 |
| Capital outlay stabilization..... | 163,610 | - | - | - | 163,610 |
| Assigned to: | | | | | |
| Instructional services..... | 219 | - | - | - | 219 |
| Excess & deficiency (FY12 budget)..... | 200,000 | - | - | - | 200,000 |
| Unassigned..... | 583,450 | (3,876,626) | - | (16,088) | (3,309,264) |
| Total Fund Balances (Deficit)..... | \$ 1,222,117 | \$ (3,876,626) | \$ 1,616,835 | \$ 1,016,412 | \$ (21,262) |

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 \$2,176,000 for the fiscal year ended June 30, 2011 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, 2011, 2010, and 2009 were \$331,906, \$294,381, and \$312,912, 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 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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 80% 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 20% of their premium costs.

Annual OPEB Cost and Net OPEB Obligation – The District’s annual other postemployment 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:

| | |
|---|---------------------|
| Annual required contribution..... | \$ 2,103,399 |
| Interest on net OPEB obligation..... | 150,169 |
| Adjustment to annual required contribution..... | (168,995) |
| Annual OPEB Cost (expense)..... | <u>2,084,573</u> |
| Annual Employer Contributions..... | <u>(410,917)</u> |
| Increase/Decrease in net OPEB obligation..... | 1,673,656 |
| Net OPEB obligation - beginning of year..... | <u>3,754,223</u> |
| Net OPEB obligation - end of year..... | <u>\$ 5,427,879</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 2011 was as follows:

| <u>Fiscal Year Ended</u> | <u>Annual Required Contribution (ARC)</u> | <u>Actual Contributions Made</u> | <u>Percentage of the ARC Contributed</u> |
|------------------------------|---|--|--|
| 6/30/2011 | \$ 2,103,399 | 410,917 | \$ 20% |
| 6/30/2010 | 2,338,490 | 398,051 | 17% |
| 6/30/2009 | 2,206,170 | 389,167 | 18% |

Funded Status and Funding Progress – As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$18.1 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$12.2 million, and the ratio of the UAAL to the covered payroll was 149%.

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 July 1, 2010 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, 2011 is 27 years.

NOTE 11 – 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, 2011, 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, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

NOTE 12 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2011, the following GASB pronouncements were implemented:

- GASB Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented in fiscal year 2011. Financial statements changes include new fund balance designations and the reclassification of stabilization funds from the special revenue fund to the general fund. Notes to the basic financial statements were changed to provide additional disclosure on the new designations of fund balance.
- GASB Statement #59, *Financial Instruments Omnibus*, was implemented in fiscal year 2011 and did not impact the financial statements.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No.34*, which is required to be implemented in fiscal year 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that does not conflict with or contradict GASB pronouncements. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.
- 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. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, which is required to be implemented in fiscal year 2012. Management does not believe that this pronouncement will require additional disclosure or 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, 2011

| | Budgeted Amounts | | | |
|---|---|-----------------------------------|--------------------|--------------------|
| | Amounts Carried forward From Prior Year | Current Year Initial Budget | Original Budget | Final Budget |
| REVENUES: | | | | |
| Member town assessments..... \$ | - \$ | 19,196,328 \$ | 19,196,328 \$ | 19,196,328 |
| Intergovernmental..... | - | 1,583,761 | 1,583,761 | 1,583,761 |
| Departmental and other..... | - | 206,457 | 206,457 | 206,457 |
| Investment income..... | - | 100,000 | 100,000 | 100,000 |
| TOTAL REVENUES..... | - | 21,086,546 | 21,086,546 | 21,086,546 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Salaries: | | | | |
| Administration..... | - | 629,882 | 629,882 | 513,382 |
| Instructional services..... | - | 10,293,151 | 10,293,151 | 10,432,151 |
| Other student services..... | - | 586,579 | 586,579 | 544,079 |
| Operation and maintenance..... | - | 494,571 | 494,571 | 494,571 |
| Fixed charges..... | - | - | - | 20,000 |
| Other operating expenditures: | | | | |
| Administration..... | 650 | 188,300 | 188,950 | 177,950 |
| Instructional services..... | 13,480 | 819,130 | 832,610 | 843,110 |
| Other student services..... | 2,500 | 912,208 | 914,708 | 947,208 |
| Operation and maintenance..... | 10,418 | 1,248,500 | 1,258,918 | 1,258,918 |
| Fixed charges..... | - | 3,245,000 | 3,245,000 | 3,245,000 |
| Programs with other school districts..... | - | 1,623,172 | 1,623,172 | 1,591,172 |
| Debt service: | | | | |
| Maturing debt..... | - | 1,250,000 | 1,250,000 | 1,250,000 |
| Interest..... | - | 1,174,167 | 1,174,167 | 1,174,167 |
| TOTAL EXPENDITURES..... | 27,048 | 22,464,660 | 22,491,708 | 22,491,708 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | (27,048) | (1,378,114) | (1,405,162) | (1,405,162) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Premium from issuance of bonds and notes..... | - | - | - | - |
| Sale of capital assets..... | - | - | - | - |
| Transfers in..... | - | 1,165,000 | 1,165,000 | 1,165,000 |
| TOTAL OTHER FINANCING SOURCES (USES)... | - | 1,165,000 | 1,165,000 | 1,165,000 |
| NET CHANGE IN FUND BALANCE..... | (27,048) | (213,114) | (240,162) | (240,162) |
| BUDGETARY FUND BALANCE, Beginning of year..... | - | 1,114,701 | 1,114,701 | 1,114,701 |
| BUDGETARY FUND BALANCE, End of year..... \$ | \$ (27,048) | \$ 901,587 | \$ 874,539 | \$ 874,539 |

See notes to required supplementary information.

| Actual Budgetary Amounts | Amounts Carried Forward To Next Year | Variance to Final Budget |
|--------------------------------|--|--------------------------------|
| \$ 19,196,328 | \$ - | \$ - |
| 1,685,260 | - | 101,499 |
| 6,139 | - | (200,318) |
| 30,325 | - | (69,675) |
| <u>20,918,052</u> | <u>-</u> | <u>(168,494)</u> |
| 462,364 | - | 51,018 |
| 10,394,535 | - | 37,616 |
| 552,957 | - | (8,878) |
| 541,218 | - | (46,647) |
| 23,781 | - | (3,781) |
| 131,665 | - | 46,285 |
| 823,294 | 219 | 19,597 |
| 691,758 | - | 255,450 |
| 1,009,738 | - | 249,180 |
| 3,118,618 | - | 126,382 |
| 1,277,921 | - | 313,251 |
| 1,250,000 | - | - |
| <u>1,164,056</u> | <u>-</u> | <u>10,111</u> |
| <u>21,441,905</u> | <u>219</u> | <u>1,049,584</u> |
| <u>(523,853)</u> | <u>(219)</u> | <u>881,090</u> |
| 21,361 | - | 21,361 |
| 96,298 | - | 96,298 |
| <u>350,000</u> | <u>-</u> | <u>(815,000)</u> |
| <u>467,659</u> | <u>-</u> | <u>(697,341)</u> |
| (56,194) | (219) | 183,749 |
| <u>1,114,701</u> | <u>-</u> | <u>-</u> |
| <u>\$ 1,058,507</u> | <u>\$ (219)</u> | <u>\$ 183,749</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) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 01/01/11 | \$ 278,332,006 | \$ 536,115,536 | \$ 257,783,530 | 51.9% | \$ 119,707,156 | 215.3% |
| 01/01/08 | 301,420,965 | 445,171,554 | 143,750,589 | 67.7% | 111,726,856 | 128.7% |
| 01/01/06 | 261,327,047 | 376,034,621 | 114,707,574 | 69.5% | 98,641,094 | 116.3% |
| 01/01/04 | 229,852,971 | 333,396,222 | 103,543,251 | 68.9% | 93,404,002 | 110.9% |
| 01/01/02 | 218,346,198 | 287,390,715 | 69,044,517 | 76.0% | 85,005,338 | 81.2% |
| 01/01/00 | 190,363,700 | 253,847,100 | 63,483,400 | 75.0% | 69,525,900 | 91.3% |
| 01/01/99 | 180,034,700 | 268,386,000 | 88,351,300 | 67.1% | 89,645,300 | 98.6% |
| 01/01/98 | 151,293,900 | 245,965,100 | 94,671,200 | 61.5% | 85,785,000 | 110.4% |
| 01/01/96 | 106,176,700 | 200,397,500 | 94,220,800 | 53.0% | 72,953,200 | 129.2% |
| 01/01/94 | 80,878,500 | 178,256,800 | 97,378,300 | 45.4% | 62,076,500 | 156.9% |

The District's share of the UAAL, as of January 1, 2011, is approximately 2%.

See notes to required supplementary information.

ESSEX REGIONAL RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Fiscal Year Ended June 30 | System Wide | | | Manchester Essex Regional School District | |
|---------------------------------|-------------------------------------|-------------------------|---------------------------|---|---|
| | Annual Required Contributions | Actual Contributions | Percentage Contributed | Actual Contributions | District Contributions as a Percentage of Actual Contributions |
| 2011 | \$ 19,093,942 | \$ 19,093,942 | 100% | \$ 331,906 | 1.74% |
| 2010 | 17,648,430 | 17,648,430 | 100% | 294,381 | 1.67% |
| 2009 | 16,326,599 | 16,326,599 | 100% | 312,912 | 1.92% |
| 2008 | 15,788,864 | 15,788,864 | 100% | 302,574 | 1.92% |
| 2007 | 16,622,274 | 16,622,274 | 100% | 283,956 | 1.71% |
| 2006 | 13,080,011 | 13,080,011 | 100% | 245,203 | 1.87% |
| 2005 | 12,223,776 | 13,080,011 | 107% | 250,347 | 1.91% |

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

See notes to required supplementary information.

Other Postemployment 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 POSTEMPLOYMENT 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) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 7/1/2010 | \$ - | \$ 18,148,331 | \$ 18,148,331 | 0.0% | \$ 12,198,757 | 148.8% |
| 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 |
|-------------------------|------------------------------------|---------------------------------|---------------------------|
| 2011 | \$ 2,103,399 | \$ 410,917 | 20% |
| 2010 | 2,338,490 | 398,051 | 17% |
| 2009 | 2,206,170 | 389,167 | 18% |

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date..... July 1, 2010
Actuarial cost method..... Entry Age Normal
Remaining amortization period..... 27 Years (as of June 30, 2011), closed

Actuarial Assumptions:

Investment rate of return..... 4.0%
2010 medical trend rate..... 9.0%
Ultimate medical trend rate..... 5.0%
Year ultimate medical trend rate reached..... 2016

Plan Membership:

| | |
|--|-------------------|
| Current retirees, beneficiaries, and dependents..... | 54 |
| Current active members..... | <u>212</u> |
| Total..... | <u><u>266</u></u> |

See notes to required supplementary information.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**1. 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 2011 approved budget for the General Fund authorized \$22.5 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, 2011, is presented below:

| | | |
|---|----|------------------------|
| Net change in fund balance, budgetary basis..... | \$ | (56,194) |
| <u>Perspective difference:</u> | | |
| Activity of the stabilization fund recorded in the general fund for GAAP..... | | (3,680) |
| <u>Basis of accounting differences:</u> | | |
| Recognition of revenue for on-behalf payments..... | | 2,176,354 |
| Recognition of expenditures for on-behalf payments..... | | <u>(2,176,354)</u> |
| Excess of revenues and other financing sources net change in fund balance, GAAP basis..... | \$ | <u><u>(59,874)</u></u> |

NOTE B – PENSION PLAN

Actuarial Methods and Assumptions:

| | |
|------------------------------------|--|
| Valuation Date..... | January 1, 2011 |
| Actuarial Cost Method..... | Entry Age Normal Cost Method |
| Amortization Method..... | Level dollar for ERI liability for most units, 4.5% annual increases for ERI liability for other units, increasing amortization for the remaining unfunded liability. Increase in total appropriation not to exceed 8%. |
| Remaining Amortization Period..... | As of July 1, 2011, schedules as selected by units for 2002 ERI liability, schedules as selected by units for 2003 ERI liability and 24 years for remaining unfunded liability. |
| Asset Valuation Method..... | Sum of actuarial value at beginning of year and increase in cost value during year excluding realized appreciation or losses plus twenty percent of market value at end of year (as reported in the Annual Statement) in excess of that preliminary value, adjusted to be within 20 percent of their market value. |

Actuarial Assumptions:

| | |
|---------------------------------|---|
| Investment rate of return..... | 8.25% |
| Projected salary increases..... | 5.00% |
| Cost of living adjustments..... | 3.00% for the first \$12,000 of retirement income |

Plan Membership:

| | |
|---|---------------------|
| Retired participants and beneficiaries receiving benefits..... | 1,624 |
| Inactive participants entitled to a return of their employee contributions..... | 844 |
| Inactive participants with a vested right to a deferred or immediate benefit..... | 70 |
| Active participants..... | <u>3,013</u> |
| Total..... | <u><u>5,551</u></u> |

NOTE C – OTHER POSTEMPLOYMENT 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 postemployment 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.

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.