

MANCHESTER SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTAL EXHIBITS

JUNE 30, 2003

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of School Committee
Manchester School District
Manchester, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Manchester School District as of and for the year ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on the 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 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 Manchester School District as of June 30, 2003, and the respective changes in financial position thereof for the 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 September 19, 2003 on our consideration of the Manchester School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Manchester School District's basic financial statements. The combining and individual fund statements and schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. They have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 19, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Manchester School District (School District or District) we offer readers of the School District's financial statements this narrative overview and analysis of the financial activities of the School District for the fiscal year ended June 30, 2003. The School District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the School District's primary government and no component units are included.

The Manchester School District operates twenty-three public school buildings including fifteen preschool and elementary schools, four middle schools, three high schools and a regional vocational/technical school. During the 2002-2003 academic year, the District served approximately 17,435 students, and employed approximately 2,475 full-time and part-time faculty and staff. Four of Manchester's neighboring school districts, the Bedford School District, the Auburn School District, the Candia School District and the Hooksett School District (collectively, the Sending Districts) sent approximately 1,750 students to the District's High Schools. The Sending Districts have entered into long-term agreements with the District providing for payment of tuition, capital and certain other costs to the District.

Financial Highlights

- The School District's liabilities exceeded its assets by \$10,566,250 (net asset deficit) for the fiscal year reported. This compares to the previous year when liabilities exceeded assets by \$13,507,763. The deficit was reduced by 21.8%.
- Total net assets are comprised of the following:
 - (1) Capital assets of \$5,259,572 include property and equipment, net of accumulated depreciation.
 - (2) Net assets of \$49,484 are restricted by constraints imposed by the School District for food service equipment replacement.
 - (3) Unrestricted net asset deficit of \$15,875,306 which is the balance of the net asset deficit, less the two items above.
- The School District's governmental funds reported a total ending fund balance deficit of \$7,881,831 this year. This compares to the prior year ending fund balance deficit of \$10,657,947, showing a substantial decrease in the deficit of \$2,776,116 during the current year.
- The School District reported a \$2,842,137 surplus in the General Fund on the budgetary basis during fiscal year 2003.

The above highlights are discussed later in this document.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the School District's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The School District also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The School District's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the School District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of internal activities.

The first statement is the *Comparative Statement of Net Assets*. This is the School District-wide statement of position presenting information that includes all of the School District's assets and liabilities, with the difference reported *as net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School District as a whole is improving or deteriorating.

The second government-wide statement is the *Statement of Activities*, which reports how the School District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the School District's distinct activities or functions on revenues provided by the City of Manchester.

All of the School District's activities are considered governmental activities, rather than business-type activities. Governmental activities include the instructional programs and the various supporting services to those programs such as student services, operation and maintenance and student transportation. Fiduciary activities are limited to trust and agency funds and they are not included in the government-wide statements since these assets are not available to fund School District programs.

The government-wide financial statements are presented on pages 11 and 12 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The School District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the School District's most significant funds rather than the School District as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The School District has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the School District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-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 assist in understanding the differences between these two perspectives.

The basic governmental fund financial statements are presented on pages 13 through 16 of this report.

Fiduciary funds are school funds and a scholarship fund and are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund School District programs.

The basic fiduciary fund financial statements are presented on pages 17 and 18 of this report.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements begin on page 19 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the School District's budget presentations. Budgetary comparison schedules are included as "required supplementary information" for the general fund and the school food service special revenue fund. These schedules demonstrate compliance with the School District's adopted budget. Required supplementary information can be found on pages 31 and 32 of this report, along with related notes beginning on page 33.

As discussed, the School District reports major funds in the basic financial statements. Combining and individual statements and schedules for non-major funds are presented in a subsequent section of this report beginning on page 36.

Financial Analysis of the School District as a Whole

The School District implemented the new financial reporting model used in this report beginning with the fiscal year ended June 30, 2002. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the School District as a whole.

The School District's net assets at fiscal year-end are in a deficit (\$10,566,250). This is a \$2.9 million decrease in the accumulated deficit over last year's net assets deficit of \$13,507,763.

The following table provides a summary of the School District's net assets:

	<u>Governmental Activities</u>		Increase (Decrease)	% Increase (Decrease)
	<u>2003</u>	<u>2002</u>		
Assets:				
Current assets	\$ 32,473,784	\$ 23,866,594	\$ 8,607,190	36
Capital assets	<u>5,259,572</u>	<u>4,502,443</u>	<u>757,129</u>	17
Total assets	<u>37,733,356</u>	<u>28,369,037</u>	<u>9,364,319</u>	33
Liabilities:				
Current liabilities	43,527,921	37,698,704	5,829,217	15
Long-term liabilities	<u>4,771,685</u>	<u>4,178,096</u>	<u>593,589</u>	14
Total liabilities	<u>48,299,606</u>	<u>41,876,800</u>	<u>6,422,806</u>	15
Net assets:				
Investment in capital assets	5,259,572	4,502,443	757,129	17
Restricted	49,484	23,130	26,354	114
Unrestricted (Deficit)	<u>(15,875,306)</u>	<u>(18,033,336)</u>	<u>2,158,030</u>	12
Total net assets (Deficit)	<u>\$ (10,566,250)</u>	<u>\$ (13,507,763)</u>	<u>\$ 2,941,513</u>	22

The School District reports an unrestricted deficit of \$15,875,306 at June 30 at the government-wide level on the accrual basis primarily because we are not funding:

- The July and August salaries owed to teachers at year-end, totaling approximately \$9.8 million
- The compensated absences earned but not paid to employees, totaling approximately \$5.6 million
- The estimated liability for claims for self-insurance, totaling approximately \$1 million.

See discussion below for more information regarding the School District's net asset deficit.

On an accrual basis, the School District's overall financial position improved during fiscal year 2003. The school district assessment was approximately \$7.5 million over that of 2002 which helped offset a like amount of expenses.

The following table provides a summary of the School District's changes in net assets:

	2003		2002	
	Amount	% of Total	Amount	% of Total
Revenues:				
Programs:				
Charges for services	\$ 16,539,326	12	\$ 15,266,844	12
Operating grants	15,821,128	11	13,312,884	10
Capital grants	332,922		328,422	
General:				
School district assessment	34,512,636	25	27,046,973	21
Unrestricted grants:				
Adequate education	42,473,084	31	42,283,387	33
State property tax	29,155,221	21	28,442,497	22
Interest	129,158		202,593	
Other	151,495		76,678	
Total revenues	<u>139,114,970</u>	<u>100</u>	<u>126,960,278</u>	<u>100</u>
Program Expenses:				
Instruction	\$ 87,799,664	65	\$ 83,632,058	65
Support services:				
Student	6,797,997	5	6,515,858	5
Instructional staff	2,182,093	2	1,974,945	2
General administration	2,853,028	2	2,891,213	2
School administration	7,041,878	5	6,230,507	5
Operation and maintenance of plant	9,672,468	7	9,841,324	8
Student transportation	3,779,237	3	3,120,356	2
Facilities acquisition and construction	346,322			
Other	1,820,648	1	873,357	1
Non-instructional services	<u>13,880,122</u>	<u>10</u>	<u>13,447,335</u>	<u>10</u>
Total Governmental Activities	<u>\$ 136,173,457</u>	<u>100</u>	<u>\$ 128,526,953</u>	<u>100</u>
Change in net assets	2,941,513		(1,566,675)	
Beginning net assets	<u>(13,507,763)</u>		<u>(11,941,088)</u>	
Ending net assets	<u>\$ (10,566,250)</u>		<u>\$ (13,507,763)</u>	

GOVERNMENTAL REVENUES

The School District is heavily reliant on two primary revenue sources, as program revenues cover only 24% of governmental operating expenses. General state aid provided 51% of the District's total revenues down from 56% from the prior year. The City of Manchester provided 25% of the total revenues. This means that the taxpayers of the City of Manchester paid 46% of the costs of operating the School District in fiscal year 2003 via the School District Assessment and State Property Taxes.

GOVERNMENTAL FUNCTIONAL EXPENSES

Instructional costs total 65% of the total functional expenses. Non-instructional costs totaled 10% of the total functional expenses; primarily the school food service program and the School District's payment to the City for debt principal and interest. In addition, the operation and maintenance of the school buildings, including utilities costs, equaled 7% of the total functional costs.

This table presents the cost of each of the School District's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the School District's taxpayers, paid through the City and the State, by each of these functions.

<u>Function</u>	<u>Total Cost of Services</u>	<u>%</u>	<u>Net Cost of Services</u>	<u>%</u>
Instruction	\$ 87,799,664	65	\$ 60,013,591	57
Support services:				
Student	6,797,997	5	6,797,997	7
Instructional staff	2,182,093	2	2,182,093	2
General administration	2,853,028	2	2,853,028	3
School administration	7,041,878	5	7,041,878	7
Operation and maintenance of plant	9,672,468	7	9,672,468	9
Student transportation	3,779,237	3	3,779,237	4
Facilities acquisition and construction	346,322	0	346,322	0
Other	1,820,648	1	1,820,648	2
Non-instructional	<u>13,880,122</u>	10	<u>8,972,819</u>	9
Total expense	<u>\$ 128,526,953</u>	100	<u>\$ 103,480,081</u>	100

Notice that the net cost of instruction financed by general revenues was reduced due to various state and federal operating grants, and tuition charged to other districts and individuals to attend the School District's schools. In addition, non-instructional net costs were reduced because of operating grants for the school food service program.

Financial Analysis of the School District's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported an ending fund balance deficit of \$7,881,831. The unreserved deficit is \$8,772,612. This amount is larger than the total deficit since we have reserved fund balance for requirements relating to school food service equipment replacement (\$49,484), an amount equal to the prepaid times which is not available for general appropriation (\$13,382), and outstanding purchase orders (\$827,915).

The total ending fund balances of governmental funds show a substantial increase of \$2,776,116 over the prior year. This increase is primarily the result of the School District's efforts to maintain tight cost controls and an additional City appropriation over 2002.

Major Governmental Funds

The General Fund is the School District's primary operating fund. The fund balance of the General Fund increased a substantial \$2,569,724. However, the actual increase was \$2,644,724 with \$75,000 being used to eliminate the Food Service Fund deficit (i.e., this amount was transferred to this fund).

The School District assessments in fiscal 2003 increased 28% to cover higher salary and benefit costs, higher transportation expenses and the elimination of the General Fund budgetary deficit from the fiscal 2002 of \$2,081,077. In addition, the School District returned \$761,060 to the taxpayers of Manchester as a reduction of 2003/2004 property taxes.

Total general fund expenditures increased 6.3% over the prior year. Instruction costs increased \$3.5 million, primarily as a result of salary and benefit increases.

The school food service fund's revenues and expenditures (excluding depreciation) were about equal. This change compares favorably with fiscal year 2002. The beginning fund balance deficit was eliminated with a transfer of \$75,000 from the general fund.

General Fund Budgetary Highlight

No budget amendments were necessary during fiscal year 2003. Actual revenues exceeded projected amounts by approximately \$500 thousand, primarily due to higher tuition revenue reported in local revenues. In total, the expenditure budget was under spent by approximately \$2.5 million. We saved \$3.7 million in the regular instruction budget primarily due to lower than anticipated retirement and health insurance costs. Special programs exceeded its budget by \$1.4 million as a result of increased special education costs.

Understanding the School District's Fund Equity Deficit

We have presented this section to explain the School District's general fund deficit since the presentation in the financial statements can become quite complex. The School District reports three different equity amounts for the general fund as follows:

- The budgetary basis reported in required supplementary information of \$761,060
- The modified accrual basis reported in the fund financial statements, a deficit of \$8,215,902
- The accrual basis reported in the government-wide financial statements, a deficit of \$10,566,250
(The general fund deficit is combined with all of the other governmental funds.)

Budgetary Basis The first equity (i.e., fund balance) is based upon the School District's budget information. The budgetary basis generally recognizes salaries as expenditures on a cash basis, and charges encumbrances (e.g., purchase orders) outstanding at year-end to the budget year just ended.

When the School District became a component unit of the City of Manchester, rather than a separate department within the City, the School District and City agreed to a deficit reduction plan to eliminate the School District's deficit as of June 30, 2000. During 2003, the School District eliminated its deficit on a budgetary basis with an excess of revenues over expenditures of approximately \$2.8 million.

Modified Accrual Basis - Under this basis of accounting, the deficit decreased by approximately \$2.6 million or 24%. The decrease from the budgetary basis relates to the following:

- The recording of the balance of salaries due teachers for the fiscal year 2003, but paid in fiscal 2004, increasing the deficit by \$9,045,629.
- Outstanding encumbrances deducted on the budgetary basis, but not on the modified accrual basis reduces the deficit by \$827,915.

Accrual Basis - Under this basis of accounting, the total deficit decreased from the prior year by \$2,941,513. The increase in the deficit from the modified accrual basis relates to the following:

- Inclusion of the other governmental funds decreased the deficit by \$334,071
- Adding the book value of the capital assets decreased the deficit by \$5,259,572
- The recording of accrued interest (intergovernmental) and long-term debt (claims payable and compensated absences) increased the deficit by \$7,943,991.

Capital Asset and Debt Administration

Capital Assets

The School District's investment in capital assets, net of accumulated depreciation, for governmental activities as of June 30, 2003, was \$5,259,572 compared with \$4,502,443 at June 30, 2002. Additions to capital assets exceeded depreciation expense, which is a positive trend. See Note 3-C for additional information about changes in capital assets during the fiscal year and balances at the end of the year.

	Capital Assets Net of Accumulated Depreciation		Percentage of Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Depreciable assets:				
Portable classrooms	\$ 843,608	\$ 843,608	9	11
Instruments	83,561	63,000	1	1
Other machinery & equipment	<u>8,326,415</u>	<u>6,956,919</u>	<u>90</u>	<u>88</u>
Total depreciable assets	<u>9,253,584</u>	<u>7,863,527</u>	<u>100</u>	<u>100</u>
Less accumulated depreciation:				
Portable classrooms	117,728	89,606	3	3
Instruments	13,442	6,943	0	0
Other machinery & equipment	<u>3,862,842</u>	<u>3,264,535</u>	<u>97</u>	<u>97</u>
Total accumulated depreciation	<u>3,994,012</u>	<u>3,361,084</u>	<u>100</u>	<u>100</u>
Book value at June 30	<u>\$ 5,259,572</u>	<u>\$ 4,502,443</u>		
Percentage depreciated	<u>43%</u>	<u>43%</u>		

Note that the book value increased approximately 17%. This also is a positive sign. The amount of capital assets is valued at over 50% of their estimated useful lives. The increase in capital assets is in machinery and equipment, which includes computers and technology equipment.

Long-term debt

The School District does not have the legal authority to issue debt. The City of Manchester has issued debt on behalf of the School District, but the School District is not obligated in any manner to repay this debt. However, annually, the City appropriates resources to the School District that include an amount equal to the current years' principal and interest due. Then the School District repays the City this same amount. The outstanding amount of bonds that the City of Manchester has issued on behalf of the School District is \$41.7 million.

The School District also reports a portion of their compensated absences liability and self-insurance claims payable as long-term debt on the statement of net assets. See Note 3-E for additional information about the School District's long-term debt.

Economic Factors and Next Year's Budgets

In July 2003, construction began on a major building project which will result in additions to the District's three high schools and two middle schools and certain other capital improvements and renovations to twenty-one of the District's twenty-three public schools (the Project). The Project is expected to be completed in August 2006.

The total cost of the Project is expected to approximate \$108 million, including capitalized interest and debt issuance costs. To fund the Project, the City of Manchester issued School Facilities Revenue Bonds, Series 2003, on July 24, 2003. The City of Manchester, the District and the Trustee entered into a Financing Agreement pursuant to which the District, subject to annual appropriation by the City of Manchester, has agreed to pay in each fiscal year an amount sufficient to pay, when due, the principal and interest on the Series 2003 Bonds. The amount due in fiscal 2004 is approximately \$1.8 million.

Contacting the School District's Financial Management

This financial report is designed to provide a general overview of the School District's finances, comply with finance-related laws and regulations, and demonstrate the School District's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the School District's Finance Department, at 196 Bridge Street, Manchester, New Hampshire, 03104, or call (603) 624-6300.

EXHIBIT A
MANCHESTER SCHOOL DISTRICT
Comparative Statement of Net Assets
June 30, 2003 and 2002

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 6,101,523	\$ 3,521,486
<u>Receivables (net of allowance for uncollectibles)</u>		
Accounts	1,337,842	822,882
Intergovernmental	25,021,037	19,408,630
Prepaid items	13,382	113,596
<i>Noncurrent Assets</i>		
<i>Capital Assets</i>		
Depreciable capital assets, net	<u>5,259,572</u>	<u>4,502,443</u>
TOTAL ASSETS	<u>\$ 37,733,356</u>	<u>\$ 28,369,037</u>
LIABILITIES		
<i>Current Liabilities</i>		
Accounts payable	\$ 2,148,565	\$ 860,198
Accrued salaries and benefits	12,991,824	12,026,037
Intergovernmental payable	1,349,388	1,289,403
Deferred revenue	25,215,226	21,638,306
Compensated absences payable	900,000	889,439
Claims payable	922,918	995,321
<i>Long-Term Liabilities</i>		
Compensated absences payable (net of current portion)	4,696,452	4,094,449
Claims payable (net of current portion)	<u>75,233</u>	<u>83,647</u>
TOTAL LIABILITIES	<u>\$ 48,299,606</u>	<u>\$ 41,876,800</u>
NET ASSETS		
Invested in capital assets	\$ 5,259,572	\$ 4,502,443
Restricted for equipment replacement	49,484	23,130
Unrestricted	<u>(15,875,306)</u>	<u>(18,033,336)</u>
TOTAL NET ASSETS	<u>\$ (10,566,250)</u>	<u>\$ (13,507,763)</u>

See accompanying notes to the basic financial statements.

EXHIBIT B
MANCHESTER SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2003
(With Comparative Net Program Expense Amounts for the Year Ended June 30, 2002)

	2003				2002	
	Program Revenues				Net (Expense) Revenue and Changes In Net Assets	Net (Expense) Revenue and Changes in Net Assets
	Charges for Services Expenses	Operating Grants, Contributions and Sales	Capital Grants and Interest	Governmental Contributions	Governmental Activities	Activities
Governmental Activities						
Instruction	\$ 87,799,664	\$ 14,217,800	\$ 13,568,273	\$	\$ (60,013,591)	\$ (59,754,076)
Support Services:						
Student	6,797,997				(6,797,997)	(6,515,858)
Instructional staff	2,182,093				(2,182,093)	(1,974,945)
General administration	2,853,028				(2,853,028)	(2,855,742)
School administration	7,041,878				(7,041,878)	(6,230,507)
Operation and maintenance of plant	9,672,468				(9,672,468)	(9,841,324)
Student transportation	3,779,237				(3,779,237)	(3,120,356)
Facilities acquisition and construction	346,322				(346,322)	
Other	1,820,648				(1,820,648)	(873,357)
Non-instructional services	<u>13,880,122</u>	<u>2,321,526</u>	<u>2,252,855</u>	<u>332,922</u>	<u>(8,972,819)</u>	<u>(8,452,638)</u>
Total Governmental Activities	<u>\$ 136,173,457</u>	<u>\$ 16,539,326</u>	<u>\$ 15,821,128</u>	<u>\$ 332,922</u>	<u>\$ (103,480,081)</u>	<u>\$ (99,618,803)</u>
GENERAL REVENUES:						
School district assessment					\$ 34,512,636	\$ 27,046,973
Grants and contributions not restricted to specific programs					71,628,305	70,725,884
Interest					129,158	202,593
Miscellaneous					<u>151,495</u>	<u>76,678</u>
Total General Revenues					<u>106,421,594</u>	<u>98,052,128</u>
Change in Net Assets					2,941,513	(1,566,675)
NET ASSETS (DEFICIT) BEGINNING OF YEAR					<u>(13,507,763)</u>	<u>(11,941,088)</u>
NET ASSETS (DEFICIT) END OF YEAR					<u>\$ (10,566,250)</u>	<u>\$ (13,507,763)</u>

completing notes to the basic financial statements.

EXHIBIT A-1
MANCHESTER SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2003
(With Comparative Totals at June 30, 2002)

	<u>2003</u>			<u>2002</u>	
	<u>General</u>	<u>Food Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 6,048,840	\$ 51,983	\$ 700	\$ 6,101,523	\$ 3,521,486
Receivables:					
Accounts	856,491	6,934	474,417	1,337,842	822,882
Intergovernmental	23,696,386	155,088	1,169,563	25,021,037	19,408,630
Interfund receivable	827,362		151,968	979,330	762,600
Prepaid items	<u>9,811</u>		<u>3,571</u>	<u>13,382</u>	<u>113,596</u>
TOTAL ASSETS	<u>\$ 31,438,890</u>	<u>\$ 214,005</u>	<u>\$ 1,800,219</u>	<u>\$ 33,453,114</u>	<u>\$ 24,629,194</u>
LIABILITIES					
Accounts payable	\$ 1,906,681	\$ 45,900	\$ 195,984	\$ 2,148,565	\$ 859,198
Accrued salaries and benefits	12,679,083	7,620	305,121	12,991,824	12,026,037
Interfund payable		93,429	885,901	979,330	763,600
Deferred revenue	<u>25,069,028</u>	<u>8,739</u>	<u>137,459</u>	<u>25,215,226</u>	<u>21,638,306</u>
TOTAL LIABILITIES	<u>39,654,792</u>	<u>155,688</u>	<u>1,524,465</u>	<u>41,334,945</u>	<u>35,287,141</u>
FUND BALANCES (Deficits)					
Reserved for encumbrances	827,915			827,915	341,081
Reserved for equipment replacement		49,484		49,484	23,130
Reserved for prepaid items	9,811		3,571	13,382	113,596
Unreserved:					
Undesignated, reported in:					
General fund	(9,053,628)			(9,053,628)	(11,240,303)
Special revenue funds		<u>8,833</u>	<u>272,183</u>	<u>281,016</u>	<u>104,549</u>
TOTAL FUND BALANCES (DEFICITS)	<u>(8,215,902)</u>	<u>58,317</u>	<u>275,754</u>	<u>(7,881,831)</u>	<u>(10,657,947)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 31,438,890</u>	<u>\$ 214,005</u>	<u>\$ 1,800,219</u>	<u>\$ 33,453,114</u>	<u>\$ 24,629,194</u>

See accompanying notes to the basic financial statements.

EXHIBIT A-2
MANCHESTER SCHOOL DISTRICT
Reconciliation of Total Governmental Fund Balances
to the Comparative Statement of Net Assets
June 30, 2003

TOTAL GOVERNMENTAL FUNDS BALANCES (DEFICITS) \$ (7,881,831)

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Cost	\$ 9,253,584	
Less accumulated depreciation	<u>(3,994,012)</u>	5,259,572

Interfund receivables and payables between governmental funds are eliminated on the statement of net assets:

Receivables	\$ 979,330	
Payables	<u>(979,330)</u>	

Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds:

Intergovernmental payable	\$ (1,349,388)	
Claims payable	(998,151)	
Compensated absences	<u>(5,596,452)</u>	<u>(7,943,991)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (10,566,250)

*EXHIBIT A-3
MANCHESTER SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003
(With Comparative Totals For the Year Ended June 30, 2002)*

	<u>2003</u>			<u>2002</u>	
	<u>General</u>	<u>Food Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
School district assessment	\$ 34,512,636	\$	\$	\$ 34,512,636	\$ 27,046,973
Other local	12,540,024	2,321,526	2,162,349	17,023,899	15,960,300
State	73,940,077	67,714	452,541	74,460,332	73,263,939
Federal	1,524,709	2,010,141	9,583,253	13,118,103	10,689,063
TOTAL REVENUES	<u>122,517,446</u>	<u>4,399,381</u>	<u>12,198,143</u>	<u>139,114,970</u>	<u>126,960,275</u>
EXPENDITURES					
Current:					
Instruction	78,882,450		9,432,533	88,314,983	82,505,691
Support Services:					
Student	5,170,329		1,533,939	6,704,268	6,504,816
Instructional staff	1,798,350		343,149	2,141,499	1,905,833
General administration	2,337,556		631,907	2,969,463	2,812,852
School administration	6,920,042		18,275	6,938,317	6,324,674
Operation and maintenance of plant	9,672,599			9,672,599	9,841,493
Student transportation	3,764,840		16,435	3,781,275	3,120,478
Other	1,729,810		91,436	1,821,246	868,546
Facilities acquisition and construction	346,322			346,322	
Non-instructional	36	4,398,458		4,398,494	4,336,896
Intergovernmental	9,250,388			9,250,388	8,439,589
TOTAL EXPENDITURES	<u>119,872,722</u>	<u>4,398,458</u>	<u>12,067,674</u>	<u>136,338,854</u>	<u>126,660,868</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,644,724</u>	<u>923</u>	<u>130,469</u>	<u>2,776,116</u>	<u>299,407</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		75,000		75,000	334,513
Transfers out	(75,000)			(75,000)	(334,513)
TOTAL OTHER FINANCING SOURCES AND USES	<u>(75,000)</u>	<u>75,000</u>			
NET CHANGE IN FUND BALANCES	2,569,724	75,923	130,469	2,776,116	299,407
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	<u>(10,785,626)</u>	<u>(17,606)</u>	<u>145,285</u>	<u>(10,657,947)</u>	<u>(10,957,354)</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ (8,215,902)</u>	<u>\$ 58,317</u>	<u>\$ 275,754</u>	<u>\$ (7,881,831)</u>	<u>\$ (10,657,947)</u>

See accompanying notes to the basic financial statements.

EXHIBIT A-4
MANCHESTER SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds \$ 2,776,116

***Amounts reported for governmental activities in the
statement of activities are different because***

Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

	Capital outlay expenditure	\$ 1,390,057	
	Depreciation expense	<u>(632,928)</u>	757,129

Transfers in and out between governmental funds are eliminated on the operating statement:

	Transfer in	\$ 75,000	
	Transfers out	<u>(75,000)</u>	-0-

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 governmental funds.

	Accrued Interest Expense	\$ (59,985)	
	Compensated absences	(612,564)	
	Self-insurance claims	<u>80,817</u>	<u>(591,732)</u>

Change in Net Assets of Governmental Activities \$ 2,941,513

EXHIBIT B-1
MANCHESTER SCHOOL DISTRICT
Agency Fund
Comparative Statement of Fiduciary Assets and Liabilities
June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash	<u>\$ 755,167</u>	<u>\$ 741,581</u>
LIABILITIES		
Due to student groups	<u>\$ 755,167</u>	<u>\$ 741,581</u>

See accompanying notes to the basic financial statements.

EXHIBIT B-2
MANCHESTER SCHOOL DISTRICT
Comparative Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ADDITIONS		
Contributions	\$ 34,000	\$ 34,000
DEDUCTIONS		
Scholarships	<u>(34,000)</u>	<u>(34,000)</u>
NET INCREASE	-0-	-0-
NET ASSETS BEGINNING OF YEAR	<u>-0-</u>	<u>-0-</u>
NET ASSETS END OF YEAR	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>

MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003

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*MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003*

the School District), was incorporated in 1909. The School District is a municipal member board elected by the voters of the School District, with the Mayor of the City of the City) serving as the Chairman of the Board.

SIGNIFICANT ACCOUNTING POLICIES

School District have been prepared in conformity with accounting principles generally in the United States of America (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The School District follows the Governmental Accounting Standards Board (FASB) statements and interpretations issued on or before the effective dates of the governmental activities at the government-wide financial reporting level.

The School District's accounting policies are described below.

As part of the primary government, any component units and other organization that are included in the financial statements are not misleading.

Component units are separate organizations for which the School District is financially accountable. The School District is accountable for an organization if the School District appoints a voting majority of the organization's governing body, the School District is able to significantly influence the programs or services performed or provided by the organization, (2) the School District is legally entitled to or can otherwise access the organization's resources, the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or the obligations of, the organization; or the School District is obligated for the debt of the organization. Based on these criteria, the following organizations are included in the School District's financial reporting entity.

The City is a component unit of the City since the City funds a portion of the School District's operating expenses, the City debt for the School District's buildings, and provides these buildings to the School District.

The financial statements consist of government-wide statements, including a comparative statement of financial position, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The government-wide financial statements include the comparative statement of financial position. These statements report financial information for the School District as a whole. The statements are prepared at the government-wide reporting level. Individual funds are not displayed at this reporting level. Governmental funds are consolidated at this reporting level.

Net Assets presents the financial position of the governmental activities of the School District. The statement includes all of the School District's assets, liabilities and net assets.

MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with the function and therefore, clearly identifiable to that particular function. The School District does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly related to the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with the distinct functional activity. Program revenues include: (1) charges for services, which includes tuition, fees, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses.

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which functions *generate* the revenue. For *grants and contributions*, the determining factor is to which functions the revenues are *restricted*.

The school district assessment from the City, unrestricted state aid and other revenue sources not properly included with program revenues are reported as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements - During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. Fund financial statements are provided for governmental and fiduciary funds.

Major individual governmental funds are reported in separate columns with composite columns for non-major funds. Fiduciary funds are reported by type.

Fund Accounting - The School District uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The School District uses two categories of funds: governmental and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The School District reports the difference between governmental fund assets and liabilities as fund balance. The following are the School District's major governmental funds:

General Fund - The General Fund is the general operating fund of the School District. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

Food Service Fund - This fund accounts for the School District's food service program.

MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003

Fiduciary Funds - Fiduciary fund reporting focuses on net assets. The School District's fiduciary funds consist of two types of funds, a private purpose trust fund and agency funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

1-C Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the comparative statement of net assets. The statement of activities reports revenues, expenses and changes in net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

The private purpose trust fund uses an economic resources measurement focus. This fund reports all of its assets and liabilities, if any, on the statement of fiduciary net assets. The statement of changes in fiduciary net assets reports additions and deductions to net assets.

1-D Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, governmental funds use the modified accrual basis of accounting, and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, the phrase "available for exchange transactions" means expected to be received within 60 days of year-end.

Revenues - Non-exchange Transactions - Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

*MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003*

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: school district assessment from the City, tuition, interest, and federal and state grants.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as deferred revenue (i.e., they are measurable, but not available) rather than as revenue.

Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) also are recorded as deferred revenue.

Although the School District does not levy property taxes, the City allocates a portion of their property taxes to the School District (i.e., it is included in the School District Assessment). Deferred revenue includes the school district assessment from the City for tax collections applicable to fiscal year 2004.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

1-E Assets, Liabilities and Fund Equity

1-E-1 Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the School District.

New Hampshire statutes require that the School District treasurer have custody of all moneys belonging to the District and shall pay out the same only upon orders of the Board of School Committee. The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to N.H. RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

Investments - Wherever the Treasurer has in custody an excess of funds, which are not immediately needed for the purpose of expenditure, the Treasurer shall, with the approval of the Board of School Committee, invest the excess funds.

New Hampshire law authorizes the School District to invest in the following type of obligations:

- Obligations of the United States Government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the state treasurer.

*MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003*

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the School District. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments are stated at fair value based on quoted market prices.

1-E-2 Receivables

All trade receivables are reported net of any allowance for uncollectibles.

1-E-3 Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

1-E-4 Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, are recorded as prepaid items using the consumption method, by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

1-E-5 Capital Assets

General capital assets are those assets which the School Districts owns. These assets generally result from expenditures in governmental funds. The School District reports these assets in the governmental activities column of the government-wide statement of net assets and the School District does not report these assets in the governmental fund financial statements. The School District only reports machinery and equipment and portable classrooms as the City owns all land and buildings that the school district uses.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000 dollars and more than one year of estimated life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

All reported capital assets are depreciated over the estimated useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Portable classroom	30 years
Food service machinery & equipment	15 - 70 years
All other machinery & equipment	10 - 50 years

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003

1-E-6 Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's experience of making termination payments. Certain teachers also are eligible for a \$6,000 bonus upon retirement.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Governmental funds report the compensated absence liability at the fund reporting level only "when due."

1-E-7 Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year.

1-E-8 Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The School District reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods. Designations are management's intent to set aside these resources for specific services.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any School District borrowing used for the acquisition, construction or improvement of those assets. As of June 30, 2003, the School District had no outstanding debt related to their capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

*MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003*

1-E-9 Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement of repayment are reported as interfund transfers. At the fund reporting level, interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

At the government-wide financial reporting level, transfers between funds that would be reported in the governmental activities column are eliminated.

1-E-10 Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

1-E-11 Comparative Data

Comparative total data for the prior year has been presented for the government-wide financial statements and the individual funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity - The General fund had a deficit fund balance in the amount of \$8,215,902 at the fund reporting level at June 30, 2003.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

3-A Deposits and Investments

The carrying amount of the School District's deposits with financial institutions at June 30, 2003 was \$6,856,690 and the bank balance was \$7,708,635. Cash and cash equivalents reported in the general fund in excess of federal depository insurance limits are collateralized by a perfected lien in securities held and segregated for the School District. Uninsured cash and cash equivalents at June 30, 2003 was \$56,773. This amount represents three individual student activity funds with balances in excess of the federal deposit insurance corporation limit of \$100,000.

Cash & Investment Reconciliation:

	<u>Cash and Cash Equivalents</u>
Fund Reporting Level:	
Governmental funds - Balance Sheet	\$ 6,101,523
Statement of Fiduciary Assets and Liability	<u>755,167</u>
<u>Total</u>	<u>\$ 5,856,690</u>

MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003

3-B Receivables

Receivables at June 30, 2003, consisted of accounts (billings for user charges, including tuition), and intergovernmental receivables arising from grants.

Receivables and payables are recorded on the School District's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility.

Amounts receivable at June 30, 2003 are as follows:

	General Fund	Food Service Fund	Non-major Special Revenue Funds	Total
Accounts	\$ 901,594	\$ 6,934	\$ 474,417	\$ 1,382,945
Intergovernmental	23,696,386	155,088	1,169,563	25,021,037
Less allowance for uncollectibles	<u>(45,103)</u>			<u>(45,103)</u>
Net total receivables	<u>\$ 24,552,877</u>	<u>\$ 162,022</u>	<u>\$ 1,643,980</u>	<u>\$ 26,358,879</u>

3-C Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	Balance July 1, 2002	Increases	Balance June 30, 2003
Governmental activities			
At cost:			
Portable classrooms	\$ 843,608	\$	\$ 843,608
Instruments	63,000	20,561	83,561
Other machinery & equipment	<u>6,956,919</u>	<u>1,369,496</u>	<u>8,326,415</u>
Total Cost	<u>7,863,527</u>	<u>1,390,057</u>	<u>9,253,584</u>
Less accumulated depreciation:			
Portable classrooms	89,606	28,122	117,728
Instruments	6,943	6,499	13,442
Other machinery & equipment	<u>3,264,535</u>	<u>598,307</u>	<u>3,862,842</u>
Total accumulated depreciation	<u>3,361,084</u>	<u>632,928</u>	<u>3,994,012</u>
Net book value	<u>\$ 4,502,443</u>	<u>\$ 757,129</u>	<u>\$ 5,259,572</u>
Depreciation expense by function:			
Instruction		\$ 493,856	
General administration		100,411	
Non-instructional		<u>38,661</u>	
Total depreciation expense		<u>\$ 632,928</u>	

MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003

3-D Interfund Balances and Transfers

Interfund balances at June 30, 2003, consist of overdrafts in the pooled cash and investments, which are reported as interfund payables within the fund with overdrafts. The School District expects to repay all interfund balances within one year.

<u>Payable to</u>	<u>Payable From</u>		<u>Total</u>
	<u>Food Service Fund</u>	<u>Non-Major Governmental Funds</u>	
General Fund	\$ 93,429	\$ 805,155	\$ 898,584
Non-Major Governmental Funds		<u>80,746</u>	<u>80,746</u>
Total	<u>\$ 93,429</u>	<u>\$ 885,901</u>	<u>\$ 979,330</u>

The interfund transfer for the year ended June 30, 2003, consisted of the following:

<u>Transfer to:</u>	<u>Transfer from General Fund</u>
Food Service Fund	\$ 75,000

This transfer was made to eliminate accumulated fund balance deficit in the Food Service Fund.

3-E Long-Term Debt

Changes in Long-term Debt - Changes in the School District's long-term obligations consisted of the following for the year ended June 30, 2003:

	<u>Outstanding July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2003</u>	<u>Amounts Due In One Year</u>
Compensated absences	\$ 4,983,888	\$ 612,564	\$	\$ 5,596,452	\$ 900,000
Claims	<u>1,078,968</u>	<u>13,162,112</u>	<u>13,242,929</u>	<u>998,151</u>	<u>922,918</u>
Total	<u>\$ 6,062,856</u>	<u>\$ 13,774,676</u>	<u>\$ 13,242,929</u>	<u>\$ 6,594,603</u>	<u>\$ 1,822,918</u>

The compensated absences liability will be paid from the fund from which the applicable employees' salaries are paid. The claims will be paid from the General Fund.

The City issues and records debt which funds capital outlay on behalf of the School District. The related capital assets acquired, along with the related long-term debt, are reported on the City's financial statements as the School District does not own the capital assets nor is it obligated for the related debt. However, the School District does reimburse the City for the aforementioned debt issued; the amount budgeted and paid to the City during the fiscal year ended June 30, 2003, was \$9,250,388 for principal and interest on debt.

MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003

3-F Pensions

All full-time employees of the District participate in the City of Manchester's established single -employer public employee retirement system (City Plan) or the New Hampshire Retirement System.

City Plan - Since the School District was formerly a department of the City, five hundred and fourteen food service, support staff and administrative personnel participate in the City Plan, although the plan is considered a single employer retirement plan. The city has two plans, the old system and the new system. The School District's administrative employees are covered under the new system.

Employees are 100% vested after five years of service. The retirement benefit is calculated at 1½% of the average total compensation during the highest three years of service in the last ten years of service (i.e., average compensation), multiplied by the years of service prior to January 1, 1999 plus 2% after January 1, 1999 of average compensation multiplied by the years of service after January 1, 1999.

All eligible employees are required to contribute 2½ % of their salaries prior to January 1, 1999 and 3¾% of their salaries after January 1, 1999. The employer contribution for fiscal year 2003 was \$468,905, while the employees paid \$297,748.

The District's contributions to the City Plan were based on actuarial valuations performed as of January 1, 2002 and 2003, and reported in June 2002 and June 2003, which are included in the publicly available financial statements of the City of Manchester.

New Hampshire Retirement System - The District participates in The New Hampshire Retirement System (the System). The State of New Hampshire is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. All administrators and teachers participated in the New Hampshire Retirement System. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provisions for benefits and contributions are established and can be amended by the New Hampshire State Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 4 Chenell Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the School District. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 5% of earnable compensation. For the year ended June 30, 2003, the School District contributed 2.58% for teachers and 4.14% for other employees. The contribution requirements for the Manchester School District for the fiscal years 2001, 2002 and 2003 were \$1,718,995, \$1,605,528 and \$1,686,098 respectively, which were paid in full in each year.

The State of New Hampshire funds 35% of employer costs for teachers employed by the School District. This amount, \$869,420, is reported as an "on-behalf payment," as an expenditure and revenue on the governmental fund operating statement and as an expense and revenue on the statement of activities.

MANCHESTER SCHOOL DISTRICT
Notes to the Basic Financial Statements
For The Year Ended June 30, 2003

NOTE 4 - OTHER NOTES

4-A Risk Management

The School District self insures against claims for workers' compensation, unemployment and most employee health coverage. Annual estimated requirements for claims are provided in the School District's annual operating budget.

Workers' Compensation - The School District contracts with an insurance consultant for claims processing of the School District's workers' compensation policy which has no third -party excess liability coverage for any employees. The workers' compensation claims liability represents an estimate of future costs based on an historical analysis of similar claims for all employees excluding public safety. The School District is unable to make any reasonable estimate of its liability of public safety employees.

Health Insurance - The School District contracts with an insurance carrier for excess liability coverage and with an insurance consultant for claims processing. Under the terms of its insurance coverage, the School District has an aggregate stop loss at 115% of premiums and maximum lifetime coverage per individual of \$1 million and \$100,000 per individual annually. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Change in Total Self-insurance Liability:

	<u>2003</u>	<u>2002</u>
Claims liability, July 1	\$ 1,078,968	\$ 900,246
Claims incurred/recognized	13,162,112	11,791,100
Claims paid	<u>(13,242,929)</u>	<u>(11,612,378)</u>
Claims liability, June 30	<u>\$ 998,151</u>	<u>\$ 1,078,968</u>

4-B Contingent Liabilities

Grants - The School District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the School District believes such disallowances, if any, will be immaterial.

Litigation - The School District was a defendant in several lawsuits as of June 30, 2003. In the opinion of School District management, the outcome of these contingencies will not have a material effect on the financial position of the School District.

EXHIBIT C-1
MANCHESTER SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2003

	<u>2003</u>			Variance	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u>	<u>2002</u>
	<u>Budget</u>	<u>Budget</u>		<u>(Unfavorable)</u>	<u>Actual</u>
REVENUES					
School district assessment	\$ 34,512,636	\$ 34,512,636	\$ 34,512,636	\$	\$ 27,046,973
Other local	12,075,539	12,075,539	12,540,024	464,485	11,481,771
State	73,109,192	73,109,192	73,070,657	(38,535)	72,370,141
Federal	<u>1,450,900</u>	<u>1,450,900</u>	<u>1,524,709</u>	<u>73,809</u>	<u>1,394,989</u>
TOTAL REVENUES	<u>121,148,267</u>	<u>121,148,267</u>	<u>121,648,026</u>	<u>499,759</u>	<u>112,293,874</u>
EXPENDITURES					
Current:					
Instruction	79,900,570	79,900,570	77,374,858	2,525,712	73,693,273
Support Services:					
Student	5,608,303	5,608,303	5,210,564	397,739	4,959,287
Instructional staff	1,913,504	1,913,504	1,850,512	62,992	1,694,038
General administration	2,310,953	2,310,953	2,335,516	(24,563)	2,134,133
School administration	6,808,285	6,808,285	7,066,249	(257,964)	6,309,367
Operation and maintenance of plant	10,409,112	10,409,112	9,579,572	829,540	9,971,286
Student transportation	3,778,200	3,778,200	3,721,614	56,586	3,157,995
Other	503,540	503,540	1,995,258	(1,491,718)	834,524
Non-instructional Services	535,000	535,000	36	534,964	47,338
Debt service:					
Principal retirement	5,985,075	5,985,075	5,985,063	12	6,447,742
Interest and fiscal charges	3,265,325	3,265,325	3,265,325		1,991,847
Facilities acquisition and construction	<u>130,400</u>	<u>130,400</u>	<u>346,322</u>	<u>(215,922)</u>	<u></u>
TOTAL EXPENDITURES	<u>121,148,267</u>	<u>121,148,267</u>	<u>118,730,889</u>	<u>2,417,378</u>	<u>111,240,830</u>
EXCESS OF REVENUES OVER EXPENDITURES			2,917,137	2,917,137	1,053,044
OTHER FINANCING (USES)					
Transfers out			<u>(75,000)</u>	<u>75,000</u>	<u>(334,513)</u>
NET CHANGE IN FUND BALANCES	<u>\$ -0-</u>	<u>\$ -0-</u>		2,842,137	<u>\$ 2,992,137</u>
718,531					
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR			<u>(2,081,077)</u>		<u>(2,799,608)</u>
FUND BALANCE (DEFICIT) -					

See accompanying notes to the required supplemental information.

\$ 761,060

\$ (2,081,077)

companying notes to the required supplemental information.

EXHIBIT C-2
MANCHESTER SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual (GAAP Basis)
Food Service Fund
For the Fiscal Year Ended June 30, 2003

	<u>2003</u>			Variance	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u>	<u>2002</u>
	<u>Budget</u>	<u>Budget</u>		<u>(Unfavorable)</u>	<u>Actual</u>
REVENUES					
Local \$	2,850,000	2,850,000	2,321,526	(528,474)	2,540,421
State	75,000	75,000	67,714	(7,286)	67,768
Federal	<u>3,275,900</u>	<u>3,275,900</u>	<u>2,010,141</u>	<u>(1,265,759)</u>	<u>1,683,086</u>
TOTAL REVENUES	6,200,900	6,200,900	4,399,381	(1,801,519)	4,291,275
EXPENDITURES					
Current:					
Non-instructional services	<u>6,200,900</u>	<u>6,200,900</u>	<u>4,398,458</u>	<u>1,802,442</u>	<u>4,289,558</u>
EXCESS OF REVENUES					
OVER EXPENDITURES	<u>\$ -0-</u>	<u>\$ -0-</u>		923	<u>\$ 923</u> 1,717
OTHER FINANCING SOURCES					
Transfers In			<u>75,000</u>		
NET CHANGE					
IN FUND BALANCES			75,923		1,171
FUND BALANCE (DEFICIT) -					
BEGINNING OF YEAR			<u>(17,606)</u>		<u>(19,323)</u>
FUND BALANCE (DEFICIT) -					
END OF YEAR			<u>\$ 58,317</u>		<u>\$ (17,606)</u>

companying notes to the required supplemental information.

*MANCHESTER SCHOOL DISTRICT
Notes to Required Supplementary Information
For The Year Ended June 30, 2003*

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Budgetary Information

General Budget Policies	1
Budget/GAAP Reconciliation	2

MANCHESTER SCHOOL DISTRICT
Notes to Required Supplementary Information
For The Year Ended June 30, 2003

Budgetary Information

1. *General Budget Policies*

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with the City Charter and various legal requirements which govern the School District's operations. The School District's budget includes only the General and Food Service Funds.

Schools prepare budget requests that are forwarded to the central office for review. A proposed budget is prepared and sent to the Board of School Committee for approval. The School District submits the School District budget to the Mayor not less than one hundred and thirty-five (135) days prior to the start of the fiscal year.

The Mayor develops budget recommendations for school appropriations and revenues and submits the recommendations to the Board of Mayor and Aldermen ninety (90) days prior to the start of the fiscal year. School District appropriations are made on a bottom-line basis (i.e., the total appropriations for the two budgeted funds).

The Finance Committee of the Board of Mayor and Aldermen review the proposed budget recommendations presented by the Mayor. The Board of Mayor and Aldermen may reduce or reject the budget submitted by the Mayor. A majority vote of the Board of Mayor and Aldermen is required to adopt the budget appropriation resolutions. The budget appropriation must be adopted no later than the last day of the prior fiscal year. A public hearing is required to be conducted on the second Tuesday of the last month of the prior fiscal year prior to the adoption of the budget.

Based on City Charter section 6.04 (d), if the Board of Mayor and Aldermen fail to adopt appropriation resolutions for the ensuing year as provided herein, the budget as originally submitted by the Mayor shall become the approved budget.

The Board of Mayor and Aldermen may reconsider budget appropriation resolutions upon a majority vote of the whole number of Aldermen elected. In the event that a majority vote is made to change the budget appropriation resolutions, a public hearing must be conducted prior to adopting any changes. The final action of any budget amendments shall be completed within ninety (90) days of the initial adoption of the budget.

Budget control is established by object categories within the School budgets. School District budget transfers from one object category to another must be approved by the Board of School Committee. The School District Business Manager is responsible for establishing controls related to the management and monitoring of the budget to prevent expenditures from exceeding budgeted appropriations.

The general fund budget is adopted on a non-GAAP basis and the school food service fund budget is adopted on a GAAP basis. For its budgetary basis, the general fund uses the modified accrual basis except for:

- Encumbrances outstanding at year-end, which are charged as expenditures in the year encumbered.
- The "on-behalf" payments for a portion of teachers' retirement paid by the State of New Hampshire, which is not reported on the budgetary basis.
- Teachers' salaries which generally are reported on the cash basis (i.e., the salaries paid in July & August for the balance due for the fiscal year just ended, are charged against the subsequent fiscal year's budget).

MANCHESTER SCHOOL DISTRICT
Notes to Required Supplementary Information
For The Year Ended June 30, 2003

2. Budget/GAAP Reconciliation

The following reconciles the general fund budgetary basis to the GAAP basis.

Expenditures - budgetary basis		\$ 118,730,889
Basis differences:		
Encumbrances recognized as expenditures on the budgetary basis, but not on the GAAP basis		
June 30, 2002	\$ 341,081	
June 30, 2003	<u>(827,915)</u>	(486,834)
On-behalf retirement contribution payments made by the State of New Hampshire recognized as expenditures on the GAAP basis, but not on the budgetary basis		
		869,420
July & August teachers' salaries payable recognized as expenditures on the GAAP basis, but not on the budgetary basis:		
June 30, 2002	\$ (9,045,629)	
June 30, 2003	<u>9,804,876</u>	<u>759,247</u>
Expenditures - GAAP basis		<u>\$ 119,872,722</u>

EXHIBIT D-1
MANCHESTER SCHOOL DISTRICT
Non-major Special Revenue Funds
Combining Balance Sheet
For the Fiscal Year Ended June 30, 2003

	<u>2003</u>					
	<u>Grants</u>	<u>Vocational Educational Program MST</u>	<u>Tuition Based Programs</u>	<u>Other</u>	<u>Total Non-major Special Revenue Funds</u>	<u>2002 Total</u>
ASSETS						
Cash and cash equivalents	\$	\$ 700	\$	\$	\$ 700	\$ 700
Receivables:						
Accounts		7,848	325,885	140,684	474,417	386,846
Intergovernmental	1,135,298			34,265	1,169,563	738,370
Interfund receivable	71,222	66,904		13,842	151,968	19,140
Prepaid items			<u>3,571</u>		<u>3,571</u>	
TOTAL ASSETS	<u>\$ 1,206,520</u>	<u>\$ 75,452</u>	<u>\$ 329,456</u>	<u>\$ 188,791</u>	<u>\$ 1,800,219</u>	<u>\$ 1,145,056</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 83,991	\$ 5,293	\$ 11,647	\$ 95,053	\$ 195,984	\$ 157,505
Accrued salaries and benefits	251,057		46,678	7,386	305,121	229,083
Interfund payable	739,388		146,513		885,901	606,832
Deferred revenue	<u>132,084</u>		<u>5,375</u>		<u>137,459</u>	<u>6,351</u>
TOTAL LIABILITIES	<u>1,206,520</u>	<u>5,293</u>	<u>210,213</u>	<u>102,439</u>	<u>1,524,465</u>	<u>999,771</u>
FUND BALANCES						
Reserved for prepaid items			3,571		3,571	
Unreserved, undesignated		<u>70,159</u>	<u>115,672</u>	<u>86,352</u>	<u>272,183</u>	<u>145,285</u>
TOTAL FUND BALANCES		<u>70,159</u>	<u>119,243</u>	<u>86,352</u>	<u>275,754</u>	<u>145,285</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,206,520</u>	<u>\$ 75,452</u>	<u>\$ 329,456</u>	<u>\$ 188,791</u>	<u>\$ 1,800,219</u>	<u>\$ 1,145,056</u>

EXHIBIT D-2
MANCHESTER SCHOOL DISTRICT
Non-major Special Revenue Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2003

	<u>2003</u>				Total Non-major Special Revenue Funds	2002 Total
	<u>Grants</u>	<u>Vocational Educational Program MST</u>	<u>Tuition Based Programs</u>	<u>Other</u>		
REVENUES						
Local \$	28,920	\$ 225,948	\$ 1,472,282	\$ 435,199	\$ 2,162,349	\$ 2,158,659
State	106,849		55,650	290,042	452,541	
Federal	<u>9,583,253</u>				<u>9,583,253</u>	<u>7,390,439</u>
TOTAL REVENUES	<u>9,719,022</u>	<u>225,948</u>	<u>1,527,932</u>	<u>725,241</u>	<u>12,198,143</u>	<u>9,549,098</u>
EXPENDITURES						
Current:						
Instruction	7,713,640	171,657	1,295,555	251,681	9,432,533	7,160,950
Support services:						
Student	904,436		196,464	433,039	1,533,939	1,478,270
Instructional staff	343,149				343,149	216,738
General administration	631,651	256			631,907	678,719
School administration	18,275				18,275	15,307
Student transportation	16,435				16,435	5,710
Other	<u>91,436</u>				<u>91,436</u>	<u>41,717</u>
TOTAL EXPENDITURES	<u>9,719,022</u>	<u>171,913</u>	<u>1,492,019</u>	<u>684,720</u>	<u>12,067,674</u>	<u>9,597,411</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		54,035	35,913	40,521	130,469	(48,313)
OTHER FINANCING SOURCES						
Transfers in						<u>334,513</u>
NET CHANGE IN FUND BALANCES		54,035	35,913	40,521	130,469	286,200
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR		<u>16,124</u>	<u>83,330</u>	<u>45,831</u>	<u>145,285</u>	<u>(140,915)</u>
FUND BALANCES -						

END OF YEAR
145,285

\$ -0-

\$ 70,159

\$ 119,243

\$ 86,352

\$ 275,754

\$

EXHIBIT E-1
MANCHESTER SCHOOL DISTRICT
Major General Fund
Schedule of Estimated and Actual Revenues - (Budgetary Basis)
For the Fiscal Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
<u>School district assessment</u>				
Current appropriation	\$ 34,512,636	\$ 34,512,636	\$ 34,512,636	\$ _____
<u>Other local sources</u>				
Tuition	11,577,539	11,577,539	12,025,973	448,434
Investment earnings	150,000	150,000	129,158	(20,842)
Charges for services	68,000	68,000	58,398	(9,602)
Impact fees	175,000	175,000	175,000	
Miscellaneous	<u>105,000</u>	<u>105,000</u>	<u>151,495</u>	<u>46,495</u>
Total other local sources	<u>12,075,539</u>	<u>12,075,539</u>	<u>12,540,024</u>	<u>464,485</u>
<u>State sources</u>				
Adequacy aid (grant)	42,473,084	42,473,084	42,473,084	
Adequacy aid (state tax)	29,155,221	29,155,221	29,155,221	
School building aid	332,922	332,922	332,922	
Catastrophic aid	820,877	820,877	804,320	(16,557)
Vocational aid	<u>327,088</u>	<u>327,088</u>	<u>305,110</u>	<u>(21,978)</u>
Total state sources	<u>73,109,192</u>	<u>73,109,192</u>	<u>73,070,657</u>	<u>(38,535)</u>
<u>Federal sources</u>				
Medicaid	1,400,000	1,400,000	1,468,008	68,008
Other	<u>50,900</u>	<u>50,900</u>	<u>56,701</u>	<u>5,801</u>
Total federal sources	<u>1,450,900</u>	<u>1,450,900</u>	<u>1,524,709</u>	<u>73,809</u>
TOTAL REVENUES	<u>\$ 121,148,267</u>	<u>\$ 121,148,267</u>	<u>\$ 121,648,026</u>	<u>\$ 499,759</u>

SCHEDULE E-2
MANCHESTER SCHOOL DISTRICT
Major General Fund
Schedule of Appropriations, Expenditures and
Encumbrances - (Budgetary Basis)
For the Fiscal Year Ended June 30, 2003

	Encumbered From 2001-2002	Appropriations 2002-2003	Expenditures Net of Refunds	Encumbered To 2003-2004	(Over) Under Budget
<u>Current</u>					
<u>Instruction</u>					
Regular programs	\$ 24,809	\$ 53,697,863	\$ 49,754,992	\$ 260,239	\$ 3,707,441
Special programs	134,008	19,341,768	20,828,004	48,882	(1,401,110)
Vocational programs		4,963,891	4,635,394		328,497
Adult and community programs		1	24,856		(24,855)
Non-public programs		1			1
Other _____		<u>1,897,046</u>	<u>1,949,504</u>	<u>31,804</u>	<u>(84,262)</u>
Total instruction	<u>158,817</u>	<u>79,900,570</u>	<u>77,192,750</u>	<u>340,925</u>	<u>2,525,712</u>
<u>Support services</u>					
Student	1,551	5,608,303	5,207,825	4,290	397,739
Instructional staff		1,913,504	1,823,927	26,585	62,992
General administration		2,310,953	2,335,516		(24,563)
School administration		6,808,285	6,920,042	146,207	(257,964)
Operation and maintenance of plant	129,792	10,409,112	9,672,599	36,765	829,540
Student transportation	43,226	3,778,200	3,764,840		56,586
Facilities acquisition and construction		130,400	346,322		(215,922)
Other _____	<u>7,695</u>	<u>503,540</u>	<u>1,729,810</u>	<u>273,143</u>	<u>(1,491,718)</u>
Total support services	<u>182,264</u>	<u>31,462,297</u>	<u>31,800,881</u>	<u>486,990</u>	<u>(643,310)</u>
Non-instructional services		<u>535,000</u>	<u>36</u>		<u>534,964</u>
<u>Debt service</u>					
Principal		5,985,075	5,985,063		12
Interest _____		<u>3,265,325</u>	<u>3,265,325</u>		
Total debt service		<u>9,250,400</u>	<u>9,250,388</u>		<u>12</u>
TOTAL EXPENDITURES	341,081	121,148,267	118,244,055	827,915	2,417,378
<u>Other Financing Uses</u>					
Transfers to special revenue funds			<u>75,000</u>		<u>(75,000)</u>
TOTAL APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES	<u>\$ 341,081</u>	<u>\$ 121,148,267</u>	<u>\$ 118,319,055</u>	<u>\$ 827,915</u>	<u>\$ 2,342,378</u>

EXHIBIT E-3
MANCHESTER SCHOOL DISTRICT
Major General Fund
Schedule of Changes in Unreserved-Undesignated Fund Balance (Budgetary Basis)
For the Fiscal Year Ended June 30, 2003

Unreserved - undesignated fund balance (deficit) - July 1, 2002		\$ (2,081,077)
Changes:		
2002-2003 budget summary:		
Revenue surplus (Schedule E-1)	\$ 499,759	
Unexpended balance of appropriations (Schedule E-2)	<u>2,342,378</u>	
2002-2003 budget surplus		<u>2,842,137</u>
Unreserved - undesignated fund balance - June 30, 2003		<u><u>\$ 761,060</u></u>

EXHIBIT F-1
MANCHESTER SCHOOL DISTRICT
Student Activities Funds
Combining Statement of Changes in Student Activities Funds - By School
For the Fiscal Year Ended June 30, 2003

	<u>Bakersville</u>	<u>Beech Street</u>	<u>Central High</u>	<u>Gossler Park</u>	<u>Green Acres</u>	<u>Hallsville</u>
Due to Student Groups at <u>July 1, 2002</u>	<u>\$ 6,642</u>	<u>\$ 12,327</u>	<u>\$ 175,836</u>	<u>\$ 4,733</u>	<u>\$ 4,125</u>	<u>\$ 10,468</u>
 <u>Additions</u>						
Band/Music Classes	17,115	34,618	84,269 65,443	34,623	7,404	27,666
Clubs			125,801			
Newspaper			8,020			
Non-student		2,614	50,630	13,000		
Sports			43,386			
Store			118,619			
Yearbook			54,172			
Other _____	<u>760</u>	<u>6,470</u>	<u>3,176</u>	<u>9,512</u>	<u>66</u>	<u>104</u>
<u>Total Additions</u>	<u>17,875</u>	<u>43,702</u>	<u>553,516</u>	<u>57,135</u>	<u>7,470</u>	<u>27,770</u>
 <u>Deductions</u>						
Band/Music Classes	13,524	28,890	86,211 74,122	47,681	3,069	20,489
Clubs			113,113			
Newspaper			9,810			
Non-student	2,726	8,563	39,950	3,432	1,577	9,882
Sports			36,479			
Store			114,471			
Yearbook			52,790			
Other _____	<u>2,358</u>	<u>7,795</u>	<u>2,291</u>	<u>2,919</u>	<u>1,756</u>	<u>515</u>
<u>Total Deductions</u>	<u>18,608</u>	<u>45,248</u>	<u>529,237</u>	<u>54,032</u>	<u>6,402</u>	<u>30,886</u>
 Due to Student Groups at <u>June 30, 2003</u>	 <u>\$ 5,909</u>	 <u>\$ 10,781</u>	 <u>\$ 200,115</u>	 <u>\$ 7,836</u>	 <u>\$ 5,193</u>	 <u>\$ 7,352</u>

<u>Highland GF</u>	<u>Hillside Middle</u>	<u>Jewett</u>	<u>Manchester Developmental Preschool</u>	<u>McDonough</u>	<u>McLaughlin Middle</u>	<u>Memorial High</u>
<u>\$ 2,687</u>	<u>\$ 36,180</u>	<u>\$ 6,778</u>	<u>\$ 191</u>	<u>\$ 4,615</u>	<u>\$ 10,656</u>	<u>\$ 106,603</u>
30,661	25,388 31,480 20,489	16,847	1,665	14,101	20,229	158,675 43,150 96,801 8,428
2,950	14,705 3,150	4,844	730	400	20,467 1,823	75,892 24,336
<u>48</u>	<u>13,271</u> <u>13,064</u>	<u>222</u>	<u>1,914</u>	<u>96</u>	<u>7,326</u>	<u>49,227</u> <u>9</u>
<u>33,659</u>	<u>121,547</u>	<u>21,913</u>	<u>4,309</u>	<u>14,597</u>	<u>49,845</u>	<u>456,518</u>
27,433	19,660 32,069 16,955	17,363	1,272	9,884	20,034 203	167,501 47,258 86,005 8,446
4,449	16,849 3,231	5,603	768	7,484	19,907 2,105	72,286 24,700
<u>2,061</u>	<u>11,964</u> <u>15,226</u>	<u>1,706</u>	<u>1,837</u>	<u>837</u>	<u>7,457</u>	<u>49,856</u>
<u>33,943</u>	<u>115,954</u>	<u>24,672</u>	<u>3,877</u>	<u>18,205</u>	<u>49,706</u>	<u>456,052</u>
<u>\$ 2,403</u>	<u>\$ 41,773</u>	<u>\$ 4,019</u>	<u>\$ 623</u>	<u>\$ 1,007</u>	<u>\$ 10,795</u>	<u>\$ 107,069</u>

EXHIBIT F-1 (Continued)
MANCHESTER SCHOOL DISTRICT
Student Activities Funds
Combining Statement of Changes in Student Activities Funds - By School
For the Fiscal Year Ended June 30, 2003

	<u>MST</u>	<u>Northwest</u>	<u>Parker - Varney</u>	<u>Parkside Middle</u>	<u>Smyth Road</u>	<u>Southside Middle</u>
Due to Student Groups at July 1, 2002	\$ 68,705	\$ 8,805	\$ 7,925	\$ 31,911	\$ 10,303	\$ 37,479
 <u>Additions</u>						
Band/Music						6,474
Classes		30,080	33,021	172,243	22,137	4,114
Clubs	113,465					18,781
Newspaper						
Non-student	21,352				95	49,103
Sports						811
Store						
Yearbook						11,374
Other _____		<u>433</u>	<u>1,200</u>	<u>1,001</u>	<u>237</u>	<u>10,122</u>
<u>Total Additions</u>	<u>134,817</u>	<u>30,513</u>	<u>34,221</u>	<u>173,244</u>	<u>22,469</u>	<u>100,779</u>
 <u>Deductions</u>						
Band/Music						5,854
Classes		34,970	28,695	171,305	16,574	6,686
Clubs	113,886					23,478
Newspaper						
Non-student	25,743	3,125	3,154		11,199	45,699
Sports						1,287
Store						
Yearbook						13,139
Other _____		<u>133</u>	<u>2,460</u>	<u>983</u>	<u>366</u>	<u>9,684</u>
<u>Total Deductions</u>	<u>139,629</u>	<u>38,228</u>	<u>34,309</u>	<u>172,288</u>	<u>28,139</u>	<u>105,827</u>
 Due to Student Groups at June 30, 2003	 <u>\$ 63,893</u>	 <u>\$ 1,090</u>	 <u>\$ 7,837</u>	 <u>\$ 32,867</u>	 <u>\$ 4,633</u>	 <u>\$ 32,431</u>

<u>Webster</u>	<u>West High</u>	<u>Weston</u>	<u>Wilson</u>	<u>Total</u>
<u>\$ 9,227</u>	<u>\$ 138,427</u>	<u>\$ 6,027</u>	<u>\$ 40,931</u>	<u>\$ 741,581</u>
	25,578			300,384
39,594	79,364	59,648	25,777	810,980
	148,208			523,545
	2,572			19,020
	129,026	372		386,180
	5,361			78,867
	140,555			259,174
	48,114			183,484
<u>4,704</u>	<u>8,381</u>	<u>21</u>	<u> </u>	<u>61,540</u>
<u>44,298</u>	<u>587,159</u>	<u>60,041</u>	<u>25,777</u>	<u>2,623,174</u>
	27,183	41,726		348,135
30,145	81,197		28,381	741,041
	138,093			491,733
	3,110			21,366
12,673	111,336	20,870		427,275
	5,433			73,235
	149,859			264,330
	43,564			178,770
<u>3,613</u>	<u>6,969</u>	<u>194</u>	<u> </u>	<u>63,703</u>
<u>46,431</u>	<u>566,744</u>	<u>62,790</u>	<u>28,381</u>	<u>2,609,588</u>
<u>\$ 7,094</u>	<u>\$ 158,842</u>	<u>\$ 3,278</u>	<u>\$ 38,327</u>	<u>\$ 755,167</u>

See Independent Auditor's Report, page 1.

