

HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003

The discussion and analysis of Hattiesburg Public School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The School District has elected not to present comparative data.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,794,413 which represents a 31% increase from fiscal year 2002. A significant portion of this increase was the result of proceeds of a settlement involving permanent damages to sixteenth section lands. These proceeds increased net assets in the 16th Section Principal Fund.
- General revenues account for \$32,909,237 in revenue, or 79% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$8,399,731 or 21% of total revenues.
- The District had \$39,516,540 in expenses; only \$8,399,731 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$32,909,237 were adequate to provide for these programs.
- Among major funds, the General Fund had \$27,524,072 in revenues and \$26,092,029 in expenditures. The General Fund's fund balance increased \$737,386 over the prior year. Over 40% of this increase was due to one-time interest earnings on proceeds of a settlement involving permanent damages to sixteenth section lands, and reimbursement of prior year expenditures related to this case.
- Capital assets, net of accumulated depreciation, increased by \$6,835,088, due primarily to construction in progress related to a major issue of general obligation bonds.

- Long-term debt increased by \$5,166,474, due primarily to the final issues in 2002-03 of a total of \$15 million in general obligation bonds for major school construction and renovations.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) 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 the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The Statement of Net Assets presents information on all the District's 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 of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District'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 years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest on long-term liabilities.

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. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District 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 financial statements focus on current 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 the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

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 District's current 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 District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the 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 budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major Special Revenue Fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$7,551,167 as of June 30, 2003.

By far the largest portion of the District's net assets (38%) reflects sixteenth section non-expendable restricted assets.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2003.

	<u>Amount</u>
Current assets	\$ 12,995,239
Capital assets, net	<u>23,143,727</u>
Total assets	<u>36,138,966</u>
Current liabilities	1,124,080
Long-term debt outstanding	<u>27,463,719</u>
Total liabilities	<u>28,587,799</u>
Net assets:	
Invested in capital assets, net of related debt	723,092
Restricted	3,955,875
Unrestricted	<u>2,872,200</u>
Total net assets	<u>\$ 7,551,167</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The principal retirement of \$1,833,526 of long-term debt.
- The issue of \$7,000,000 in general obligation bonds.
- The addition of \$7,217,017 in capital assets, primarily from new construction related to \$15 million in general obligation bonds, of which the \$7,000,000 represent the final two issues.
- The receipt of \$3,000,000, net of required pro-rata disbursements to other school districts, of sixteenth section principal funds in settlement of a lawsuit involving permanent damages to trust lands.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2003 were \$41,308,968. The total cost of all programs and services was \$ 39,516,540. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2003.

	<u>Amount</u>
Revenues:	
Program revenues	\$ 8,399,731
General revenues	<u>32,909,237</u>
Total revenues	<u>41,308,968</u>
Expenses:	
Instruction	20,891,835
Support services	14,741,456
Non-instructional	2,135,930
Sixteenth section	575,572
Interest and other expenses on long-term liabilities	<u>1,171,747</u>
Total expenses	<u>39,516,540</u>
Increase in net assets	<u>\$ 1,792,428</u>

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 20,891,835	\$ (16,335,294)
Support services	14,741,456	(12,519,131)
Non-instructional	2,135,930	(515,065)
Sixteenth section	575,572	(575,572)
Interest/expenses on long-term liabilities	<u>1,171,747</u>	<u>(1,171,747)</u>
Total expenses	<u>\$ 39,516,540</u>	<u>\$ (31,116,809)</u>

Individual items of particular significance to the District are described as follows:

- Net cost of governmental activities (\$31,116,809), was financed by general revenue, which is made up of primarily property taxes (\$13,126,349) and state revenue (\$15,519,845), and 16th Section sources (\$3,399,292).
- Investment earnings accounted for \$437,811 of funding.
- Other significant items are presented under the discussion of "Net Assets," above.

FINANCIAL ANALYSIS OF THE DISTRICT'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 the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$12,236,727, an increase of \$768,339 due primarily to the following: Increase of \$737,386 in the general fund, net (decrease) of \$2,334,833 in the bond construction funds, and increase of \$2,504,359 in the 16th Section Principal fund. \$3,376,208 or 27 % of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$8,860,519 or 73% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$737,386 as a result of regular operating revenues in excess of expenditures, as well as the items discussed in "Financial Highlights" at the beginning of this report. The fund balance of Other Governmental Funds showed a (*decrease*) of \$71,937, due primarily to a net reduction in the Debt Service funds. The School Food Service fund showed a (decrease) in fund balance of \$66,637, due to regular operating expenditures in excess of revenues. The net fund balance (decrease) of \$2,334,833 in the G/O Bonds Construction Funds resulted from construction and renovations expenditures in excess of current year bond proceeds. The fund balance increase of \$2,504,359 in the Permanent Funds was due to settlement proceeds in the 16th Section Principal Fund, as explained above.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant items related to budgetary revisions to the district's General Fund are presented as follows:

- Budget amounts for revenue from state sources were increased to funding received for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.
- Budget amounts for revenues from local sources were increased primarily to record additional amounts received for local ad valorem taxes, interest income, and refunds of prior year expenditures.
- Budget amounts for expenditures in the instruction and support services functions were increased primarily to record additional costs in salaries, wages, and related employee benefits.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major special revenue funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2003, the District's total capital assets were \$34,868,497, including land, construction in progress, buildings, improvements other than buildings, mobile equipment, furniture and equipment, and leased property under capital leases. This amount represents an increase of \$7,217,017 from the previous year. The increase is due primarily to new construction in progress related to a major bond issue. Total accumulated depreciation as of June 30, 2003 was \$11,724,770 and total depreciation expense for the year was \$481,782, resulting in total net assets of \$23,143,727.

Debt Administration. At June 30, 2003, the District had \$27,463,719 in general and limited obligation bonds and other long-term debt outstanding, of which \$1,332,884 is due within one year. During fiscal years 2001-02 and 2002-03, the District issued \$15 million in new general obligation bonds for major construction and school renovations.

The District maintains an A2 bond rating (Moody's).

CURRENT ISSUES

The Hattiesburg Public School District is financially stable. The District receives enthusiastic community support for the public schools from the government and citizens of the City of Hattiesburg.

The District has committed itself to financial excellence for many years. The local ad valorem millage rate is at the maximum allowed under state law, which is 58.30 mills for Hattiesburg Public School District. The District's system of financial planning, budgeting and internal financial controls are administered by experienced and dedicated professionals. The District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Hattiesburg Public School District, 301 Mamie Street, Hattiesburg, MS 39401, phone (601) 582-5078.