

**Jefferson County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003**

The discussion and analysis of Jefferson County 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 \$570,370, which represents 29% increase from fiscal year 2002. This increase is primarily a result of the increased amount of revenue from state sources received due to full funding for Mississippi Adequate Education.
- General revenues account for \$8,334,624 in revenue, or 71% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,490,265, or 29% of total revenues.
- The District had \$11,264,689 in expenses; only \$3,490,265 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$8,334,624 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,916,140 in revenues and \$7,082,343 in expenditures. The General Fund's fund balance increased \$669,029 over the prior year. This increase is primarily a result of the increased amount of revenue from state sources received due to full funding for Mississippi Adequate Education.

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- Capital assets, net of accumulated depreciation, increased by \$560,149. This increase is due primarily to several adjustments made to capital asset balances as of June 30, 2003 to correct prior year audited balances. An adjustment was made to increase capital assets by \$1,351,444 for several buildings that were completed in a prior year but were not included in the prior year audit balance. An adjustment was made to decrease capital assets by \$621,200 for building renovations that were performed in a prior year and were included in the prior year audit balance. An adjustment was also made to decrease capital assets by \$62,423 for several items that were below the threshold amounts but were included in the prior year audit balance. Several other reclassifications were made but had no effect on the financial statement amounts.
- Long-term debt decreased by \$265,269 due primarily to principal payments made on existing long-term debt.

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 and other expenses on long-term liabilities.

The government-wide financial statements can be found in this report.

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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. These reconciliations are found in this report.

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.

The basic governmental fund financial statements can be found in this report.

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. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets.

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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. The notes to the financial statements can be found in this report.

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. This required supplementary information can be found in this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found in this report.

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 \$2,568,441 as of June 30, 2003.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$350,562 of the District's net assets (14%) reflects its investment in capital assets (e.g., land, buildings, building improvements, mobile equipment, furniture and equipment and leased property under capital leases), less any related debt used to acquire those assets that is still outstanding. The District uses the capital assets to provide services to its students; consequently these assets are not available for future spending. \$1,814,363 of the District's net assets (71%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$403,516 of the District's net assets (15%) reflects its unrestricted net assets.

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

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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	\$ 4,136,021
Capital assets, net	<u>2,500,862</u>
Total assets	<u>6,636,883</u>
Current liabilities	280,894
Long-term debt outstanding	<u>3,787,548</u>
Total liabilities	<u>4,068,442</u>
Net assets:	
Invested in capital assets, net of related debt	350,562
Restricted	1,814,363
Unrestricted	<u>403,516</u>
Total net assets	<u>\$ 2,568,441</u>

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

- The principal retirement of \$284,364 of long-term debt.
- The capital asset balances from the prior year were adjusted to 1) add buildings in the amount of \$1,351,444 that were completed in a prior year but were not included in prior year balances, 2) deduct building renovations in the amount of \$621,200 that were completed in a prior year and included in prior year balances, and 3) deduct capital asset items totaling \$62,423 that are below the threshold amounts but were included in prior year balances.

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Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2003 were \$11,824,889. The total cost of all programs and services was \$11,264,689. 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	\$ 3,490,265
General revenues	<u>8,334,624</u>
Total revenues	<u>11,824,889</u>
 Expenses:	
Instruction	6,455,652
Support services	3,846,293
Non-instructional	727,239
Sixteenth section	35,666
Interest and other expenses on long-term liabilities	<u>199,839</u>
Total expenses	<u>11,264,689</u>
 Increase in net assets	 \$ <u>560,200</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	\$ 6,455,652	\$ (4,402,739)
Support services	3,846,293	(3,220,402)
Non-instructional	727,239	48,865
Sixteenth section	35,666	(309)
Interest/expenses on long-term liabilities	<u>199,839</u>	<u>(199,839)</u>
Total expenses	<u>\$ 11,264,689</u>	<u>\$ (7,774,424)</u>

- Net cost of governmental activities (\$7,774,424), was financed by general revenue, which is made up of primarily property taxes (\$1,496,358) and state revenue (\$6,333,247).

- Investment earnings accounted for \$76,348 of funding.

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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 \$3,919,766, an increase of \$352,678 due primarily to the increased amount of revenue from state sources received due to full funding for Mississippi Adequate Education. \$1,796,667, or 46% 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 \$2,123,099, or 54%, 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 \$669,029, a result of the increased amount of revenue from state sources received due to full funding for Mississippi Adequate Education. The fund balance of Other Governmental Funds showed a decrease of \$329,621 due primarily to expenditures during the fiscal year related to renovations to school facilities.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

- Budget amounts for revenue from local sources in the General Fund were amended to reflect the actual amount received from local sources during the fiscal year. The original budget amounts for revenue from local sources were understated.
- Budget amounts for revenue from state sources in the General Fund were amended to reflect the actual amount received from state sources during the fiscal year. The original budget amounts for revenue from state sources were overstated.
- Budget amounts for revenue from federal sources in the General Fund were amended to reflect the actual amount received from federal sources during the fiscal year. The original budget amounts for revenue from federal sources were understated.

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- Budget amounts for instructional expenditures in the General Fund were amended to reflect the actual instructional expenditures during the fiscal year. The original budget amounts for instructional expenditures were understated.
- Budget amounts for support services expenditures in the General Fund were amended to reflect the actual support services expenditures during the fiscal year. The original budget amounts for support services expenditures were understated.
- Budget amounts for transfers in the General Fund were amended to reflect the actual transfers made during the fiscal year. The original budget amounts for transfers were understated.

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 \$5,936,646, including land, buildings, building improvements, mobile equipment, furniture and equipment and lease property under capital leases. This amount represents an increase of \$680,376 from the previous year. The prior year audit balances were adjusted by \$667,821 in order to include items acquired during a prior fiscal year but not included in prior year capital asset balances and to exclude renovations to school facilities and items below threshold amounts that should not have been included in prior year audit balances. Total accumulated depreciation as of June 30, 2003 was \$3,435,784 and total depreciation expense for the year was \$128,519, resulting in total net assets of \$2,500,862.

Additional information of the District's capital assets can be found in this report.

Debt Administration. At June 30, 2003, the District had \$3,787,548 in general and limited obligation bonds and other long-term debt outstanding, of which \$302,805 is due within one year. The prior year audit balance for obligations under capital leases was adjusted by \$53,031 in order to include a capital lease entered into in a prior year but not included in prior year debt balances. The district made principal payments in the amount of \$284,364 during the fiscal year on existing long-term debt.

Additional information of the District's long-term debt can be found in this report.

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CURRENT ISSUES

The Jefferson County School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The millage has not increased or decreased significantly over the past several years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has decreased, however the decrease has not been significant.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Jefferson County School District, P. O. Box 157, Fayette, MS 39069.