

GRENADA SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004

The discussion and analysis of Grenada School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2004. 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 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.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,802,256, which represents 7% increase from fiscal year 2003. The increase is reflected primary in cash and other deposits and capital assets. The increase in cash and other deposits is due to an increased level of state funding under the Mississippi Adequate Education Program, to pay the increase in teacher salaries, as mandated by the Mississippi State Legislature. The increase in capital assets is the result of a completed building project during fiscal year 2004.
- General revenues account for \$23,347,597 in revenue, or 79% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,384,232 or 21% of total revenues.
- The district had \$27,929,573 in expenses; only \$6,384,232 of these expenses was offset by program specific charges for services, grants, and contributions. General revenues of \$23,347,597 were adequate to provide for these programs.

- Among major funds, the General Fund had \$22,686,477 in revenues and \$22,271,556 in expenditures. The General Fund's fund balance decreased \$379,126 over the prior year. The decrease was due primarily to an increase in teacher salaries as mandated by the Mississippi State Legislature.
- Capital assets, net of accumulated depreciation, increased by \$696,910. This increase is due to the addition of buildings and other property as depreciable assets.
- Long-term debt decreased by \$727,152. This decrease is due to the fact that annual payments were made to decrease existing debt, as well as the fact that no new debt was issued during fiscal year 2004.

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

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 fund.

Additionally, a schedule of expenditures of federal awards is included in this report as 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 \$26,932,215 as of June 30, 2004.

By far the largest portion of the District's net assets (63%) reflects its investment in capital assets (e.g., land building, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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, 2004 and a comparison of the same information as presented at June 30, 2003.

	FISCAL YEAR 2004	FISCAL YEAR 2003	DIFFERENCE
Current assets	\$10,513,394	\$ 9,978,411	534,983
Capital assets, net	\$25,917,669	\$ 25,220,759	696,910
Total Assets	\$ 36,431,063	\$ 35,199,170	\$ 1,231,893
Current liabilities	\$403,178	\$246,389	156,789
Long-term debt outstanding	9,095,670	\$ 9,822,822	(727,152)
Total Liabilities	\$ 9,498,848	\$ 10,069,211	\$ (570,363)
Net assets:			
Invested in capital assets, net of related debt	17,002,669	16,369,238	633,431
Restricted	7,919,736	6,228,318	1,691,418
Unrestricted	2,009,810	2,532,403	(522,593)
Total Net Assets	\$ 26,932,215	\$ 25,129,959	\$ 1,802,256

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

- The increase in current assets is represented primarily by cash and other deposits. This is the result of an increased level of state funding, under the Mississippi Adequate Education Program, to pay increases in teacher salaries, as mandated by the Mississippi State Legislature.
- The increase in capital assets net is primarily the result of a completed building project less the fiscal year 2004 depreciation expense.
- The decrease in long-term debt is a result of principal payments made during fiscal year 2004.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2004 were \$29,731,829. The total cost of all programs and services was \$27,929,573. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2004.

	FISCAL YEAR 2004	FISCAL YEAR 2003	DIFFERENCE
Revenues:			
Program revenues	\$6,384,232	\$20,411,387	(14,027,155)
General revenues	23,347,597	7,698,005	15,649,592
Total revenues	<u>\$ 29,731,829</u>	<u>\$ 28,109,392</u>	<u>\$ 1,622,437</u>
Expenses:			
Instruction	17,000,474	15,375,809	1,624,665
Support services	8,890,937	8,160,983	729,954
Non-instructional	1,544,710	1,567,685	(22,975)
Sixteenth Section	60,675	82,441	(21,766)
Interest on long-term liabilities	432,777	470,589	(37,812)
Total expenses	<u>27,929,573</u>	<u>25,657,507</u>	<u>2,272,066</u>
Increase in Net Assets	1,802,256	2,451,885	(649,629)

The following are explanations of significant changes in revenues and expenses.

- The decrease in program revenues and the increase in general revenues is primarily the result of a change in revenue classification. In fiscal year 2003 state revenues, including Minimum Adequate Education Program funds, the largest funding source for public schools in Mississippi, was included under program revenues. However, for fiscal year 2004, they are classifieds as general revenues.
- The increase in total revenue is primarily a result of an increased level of state funding to pay increases in teacher salaries, as mandated by the Mississippi State Legislature.
- The increase in total expenses is primarily a result of an increase in teacher salaries, as mandated by the Mississippi State Legislature.

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term liabilities. 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.

	Fiscal Year 2003 Total Expenses	Fiscal Year 2003 Net (Expense) Revenue	Fiscal Year 2004 Total Expenses	Fiscal Year 2004 Net (Expense) Revenue	Total Expense Difference	Net (Expense) Revenue Difference
Instruction	15,375,809	2,579,318	17,000,474	(12,824,846)	1,624,665	(15,404,164)
Support Services	8,160,983	(6,909,640)	8,890,937	(8,436,006)	729,954	(1,526,366)
Non-instructional	1,567,685	(438,083)	1,544,710	208,963	(22,975)	647,046
Sixteenth Section	82,441	(7,126)	60,675	(60,675)	(21,766)	(53,549)
Interest on long-term liabilities	470,589	(470,589)	432,777	(432,777)	(37,812)	37,812
Total Expenses	25,657,507	(5,246,120)	27,929,573	(21,545,341)	2,272,066	(16,299,221)

Net cost of governmental activities (\$21,545,341), was financed by general revenue, which is made up of primarily property taxes \$5,795,720 and state revenue \$16,146,957. The increase in net cost of governmental activities from fiscal year 2003 to fiscal year 2004 is primarily a result of a change in revenue classification. In fiscal year 2003 state revenues, including minimum adequate education program funds, the largest funding source for public schools in Mississippi, was classified as program revenues, whereas, in fiscal year 2004 these revenues are classified as general revenues.

- Investment earnings accounted for \$262,604 of funding.

Sixteenth Section Revenues, including timber sales, leases and investment earnings accounted for \$733,045 of funding.

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 \$10,233,042 an increase of \$370,440 due primarily to an increased level of state funding under the Mississippi Adequate Education Program. \$2,190,480 or 22% 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 \$8,042,562 or 78% 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 decrease in fund balance in the General Fund for the fiscal year was \$379,126 a result of an increase in teacher salaries as mandated by the Mississippi State Legislature. The fund balance of Other Governmental Funds also reflected a decrease due primarily to an increase in teacher salaries as mandated by the Mississippi State Legislature.

BUDGETARY HIGHLIGHTS

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

Revisions to the budget were made to reflect changes in personnel during the year. In addition, when the original budget was completed several federal project allocations were estimated. As the actual allocations were made available, amendments were made to the budget.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2004, the District's total capital assets were \$35,115,234 including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$1,428,434 from the previous year. Total accumulated depreciation as of June 30, 2004 was \$9,197,565 and total depreciation expense for the year was \$855,188, resulting in total net capital assets of \$25,917,669.

Additional information of the District's capital assets can be found in the Notes to the Financial Statements.

Debt Administration. At June 30, 2004, the District had \$9,095,670 in general obligation bonds and other long-term debt outstanding, of which \$755,000 is due within one year.

The District maintains an AA bond rating.

Additional information of the District's long-term debt can be found in the notes to the Financial Statements.

CURRENT ISSUES

The Grenada School District is financially stable. The District is proud of its' community support of the public schools.

The Grenada School District has committed itself to financial excellence for many years. This is evident by the fact that the "Certificate Recognizing Achievement in Financial Reporting" and the "Certificate Recognizing Achievement in Fixed Asset Management", issued by the Office of the State Auditor, has been awarded to the school district each year it has been available. The District's system of financial planning, budgeting, and internal financial controls are well regarded.

The Grenada School District is sensitive to the effects of increased taxation upon the citizens of Grenada County. This is evident by the fact that the ad valorem taxation mileage rate for operational purposes has ranged from 35.13 mills in fiscal year 1994 to 35.57 mills in fiscal year 2004. This reflects an increase of only .44 mills in ten years. An even closer observance will reveal that the total ad valorem taxation millage rate, which includes debt service, has actually decreased by .21 mills during that same time.

The Grenada School District's enrollment at the end of the first month of the 2003-2004 school year was 4,719 students. This enrollment reflects an increase of seventy-three (73) students over the first month of the 2002-2003 school year. Since 1992, the school district's enrollment has increased by 612 students. The Grenada School District has taken into account this increase in both funding and staffing needs.

The Grenada School District plans to continue its sound 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 Grenada School District, P O Box 1940, 1855 Jackson Avenue, Grenada, Mississippi 38901.