

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

The discussion and analysis of Leflore County 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, including the effects of prior period adjustments, increased \$1,575,939, which represents a 29% increase from fiscal year 2003. The increase is reflected primarily in cash and other deposits. 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.
- General revenues account for \$14,851,501 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,514,389 or 30% of total revenues.
- The district had \$19,807,440 in expenses; only \$6,514,389 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues of \$14,851,501 were adequate to provide for these programs.

Among major funds, the General Fund had \$14,205,100 in revenues and \$12,987,843 in expenditures. The General Fund's fund balance increased \$931,175 over the prior year. The increase was due primarily to holding back a portion of revenues from the budget as a safeguard against anticipated revenue shortfalls. This was recommended by the State Department of Financial Accountability.

- Capital assets, net of accumulated depreciation, decreased by \$85,807. This decrease is due primarily to the year's charge to depreciation.

- Long-term debt decreased by \$147,404. 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 Circular 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 \$6,947,089 as of June 30, 2004.

A large portion of the District's net assets (24%) 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	\$6,750,038	\$ 5,466,535	1,283,503
Capital assets, net	\$3,549,458	\$ 3,635,265	(85,807)
<b>Total Assets</b>	<b>\$ 10,299,496</b>	<b>\$ 9,101,800</b>	<b>\$ 1,197,696</b>
Current liabilities	1,238,853	\$ 1,469,692	(230,839)
Long-term debt outstanding	2,113,554	\$ 2,260,958	(147,404)
<b>Total Liabilities</b>	<b>\$ 3,352,407</b>	<b>\$ 3,730,650</b>	<b>\$ (378,243)</b>
Net assets:			
Invested in capital assets, net of related debt	1,684,458	1,550,265	134,193
Restricted	2,962,383	1,608,639	1,353,744
Unrestricted	2,300,248	2,212,246	88,002
<b>Total Net Assets</b>	<b><u>\$ 6,947,089</u></b>	<b><u>\$ 5,371,150</u></b>	<b><u>\$ 1,575,939</u></b>

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 decrease in capital assets net is primarily the result of charges to 2004 depreciation.
- 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 \$21,365,890. The total cost of all programs and services was \$19,807,440. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2004.

	<b>FISCAL YEAR 2004</b>	<b>FISCAL YEAR 2003</b>	<b>DIFFERENCE</b>
<b>Revenues:</b>			
Program revenues	\$ 6,514,389	5,247,570	1,266,819
General revenues	14,851,501	15,038,041	(186,540)
<b>Total revenues</b>	<u>21,365,890</u>	<u>20,285,611</u>	<u>1,080,279</u>
<b>Expenses:</b>			
Instruction	11,352,887	10,671,554	681,333
Support services	6,473,613	6,524,202	(50,589)
Non-instructional	1,845,612	1,713,112	132,500
Sixteenth Section	62,781	62,561	220
Interest on long-term liabilities	72,547	103,640	(31,093)
<b>Total expenses</b>	<u>19,807,440</u>	<u>19,075,069</u>	<u>732,371</u>
Prior period adjustments	<u>17,489</u>	<u>0</u>	<u>17,489</u>
<b>Increase in Net Assets</b>	<u>\$ 1,575,939</u>	<u>1,210,542</u>	<u>365,397</u>

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

- 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 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.

	<b>Fiscal Year 2003 Total Expenses</b>	<b>Fiscal Year 2003 Net (Expense) Revenue</b>	<b>Fiscal Year 2004 Total Expenses</b>	<b>Fiscal Year 2004 Net (Expense) Revenue</b>	<b>Total Expense Difference</b>	<b>Net (Expense) Revenue Difference</b>
Instruction	10,671,554	(8,049,975)	11,352,887	(8,319,699)	681,333	269,724
Support Services	6,524,202	(5,335,715)	6,473,613	(4,810,836)	(50,589)	(524,879)
Non-instructional	1,713,112	(275,608)	1,845,612	(27,188)	132,500	(248,420)
Sixteenth Section	62,561	(62,561)	62,781	(62,781)	220	220
Interest on long-term liabilities	103,640	(103,640)	72,547	(72,547)	(31,093)	(31,093)
<b>Total Expenses</b>	<b>19,075,069</b>	<b>(13,827,499)</b>	<b>19,807,440</b>	<b>(13,293,051)</b>	<b>732,371</b>	<b>(534,448)</b>

- Net cost of governmental activities \$13,293,051, was financed by general revenue, which is made up of primarily property taxes \$2,976,893 and state revenue \$11,236,553.
- Investment earnings accounted for \$53,502 of funding.
- Sixteenth Section Revenues, including sales, leases and investment earnings accounted for \$564,123 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 \$5,511,185 an increase of \$1,490,689 due primarily to an increased level of state funding under the Mississippi Adequate Education Program. \$2,531,802 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 \$2,979,383 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 \$931,175 primarily a result of an increase in state funding for teacher salaries as mandated by the Mississippi State Legislature. The fund balance of Other Governmental Funds also reflected an increase.

## **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 depreciable capital assets were \$9,223,286 including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$60,709 from the previous year. Total accumulated depreciation as of June 30, 2004 was \$5,822,927 and total depreciation expense for the year was \$191,467, resulting in total depreciable net capital assets of \$3,400,359.

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 \$2,113,554 in general obligation bonds and other long-term debt outstanding, of which \$225,000 is due within one year.

The District maintains an excellent bond rating with Moody's Investment Services.

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

## **CURRENT ISSUES**

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

The Leflore County School District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting, and internal financial controls are well regarded.

The Leflore County 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 Leflore County School District, 1901 Highway 82 West, Greenwood, Mississippi 38930.