

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

The discussion and analysis of Long Beach 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 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.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$501,324 which represents 13% increase from fiscal year 2003. This could be attributed to an increase in state funding under the Mississippi Adequate Education Program.
- General revenues account for \$18,120,232 in revenue, or 84% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,555,609 or 16% of total revenues.
- The District had \$21,174,517 in expenses; only \$3,555,609 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$18,120,232 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,854,742 in revenues and \$17,583,601 in expenditures. The General Fund's fund balance decreased \$125,866 over the prior year. This could be attributed to an increase in expenditures for one time instructional items.
- Capital assets, net of accumulated depreciation, increased by \$17,245. This increase is due to adding a capital lease for instructional equipment, purchasing buses, and buying real property (land).
- Long-term debt decreased \$684,856.

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 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 \$4,522,103 as of June 30, 2004.

The District's net assets (34%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, 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 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.

	<u>2004</u>	<u>2003</u>
Current assets	\$ 4,769,256	\$ 4,845,467
Capital assets, net	<u>7,851,097</u>	<u>7,833,852</u>
Total asset	<u>12,620,353</u>	<u>12,679,319</u>
Current liabilities	1,299,161	1,174,595
Long-term debt outstanding	<u>6,799,089</u>	<u>7,483,945</u>
Total liabilities	<u>8,098,250</u>	<u>8,658,540</u>
Net assets:		
Invested in capital assets, net of related debt	1,486,920	1,012,000
Restricted	885,866	1,077,963
Unrestricted	<u>2,149,317</u>	<u>1,930,816</u>
Total net assets	<u>4,522,103</u>	<u>4,020,779</u>

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

- The principal retirement of \$1,190,491 of long-term debt.

Comparative Analysis: Total net assets increased by \$501,324 from FY03 to FY04. This increase is primarily due to a decrease of (\$457,675) in capital related liabilities.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2004 were \$21,675,841. The total cost of all programs and services was \$21,174,517. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2003.

	<u>2004</u>	<u>2003</u>
Revenues:		
Program revenue	\$ 3,555,609	\$ 3,252,856
General revenues	<u>18,120,232</u>	<u>16,810,460</u>
Total revenue	<u>21,675,841</u>	<u>20,063,316</u>

Comparative analysis: General revenues increased by 1.61 million dollars from FY03 to FY04. The increase was primarily from the following categories:

- A. Local taxes increased by \$524,059.**
- B. State revenue (MAEP) increased by \$838,396.**
- C. Debt service levies increased by \$180,269.**
- D.**

	<u>2004</u>	<u>2003</u>
Expenses:		
Instruction	13,010,150	12,282,185
Support services	6,913,238	6,567,672
Non-instruction	909,179	947,234
Interest on long-term liabilities	<u>341,950</u>	<u>401,369</u>
Total expenses	<u>21,174,517</u>	<u>20,198,460</u>
Increase in net assets	<u>\$ 501,324</u>	<u>\$ 135,144</u>

Comparative analysis: The increase in net assets is due to a large increase in total general revenues (1.6 million) from FY03 to FY04 to offset the net cost of governmental activities.

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.

	<u>2004</u>		<u>2003</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$13,010,150	\$ (11,101,471)	\$12,282,185	\$(10,200,771)
Support services	6,913,238	(6,260,568)	6,567,672	(6,426,545)
Non-instructional	909,179	85,081	947,234	83,081
Interest on long-term liabilities	<u>341,950</u>	<u>(341,950)</u>	<u>401,369</u>	<u>(401,369)</u>
Total expenses	<u>\$21,174,517</u>	<u>\$ (17,618,908)</u>	<u>20,198,460</u>	<u>(16,945,604)</u>

- Net cost of governmental activities (\$17,618,908) was financed by general revenue, which is made up of primarily property taxes \$5,593,926 and state revenue \$11,911,470.

Comparative Analysis: Total expenses increased by \$976,057 from FY03 to FY04 due to an increase in salaries. The 6% teacher pay raise cost the district an additional \$850,000.

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 \$3,610,286; a decrease of \$186,096 due primarily to one time expenditures for textbooks and instructional equipment. \$2,564,069 or 71% 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 \$1,046,218 or 29% 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 \$125,866, a result of one time expenditures for instructional equipment and textbooks. The fund balance of Other Governmental Funds showed a decrease of \$67,108.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. A primary reason for amending the budget was to match our expenditures with our educational plan of goals and objectives.

- Budget amounts for revenue from state sources was increased to full funding for Mississippi Adequate Education.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and 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 \$13,882,963, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$320,708 from the previous year. This increase is due to adding buses and a capital lease for instructional equipment. Total accumulated depreciation as of June 30, 2004 was \$6,031,866 and total depreciation expense for the year was \$303,463, resulting in total net assets of \$7,851,097.

Additional information of the District's capital assets can be found in Note 4 of this report.

Debt Administration. At June 30, 2004, the District had \$6,799,089 in general obligation bonds and other long-term debt outstanding, of which \$864,876 is due within one year.

Additional information of the District's long-term debt can be found in Note 5 of this report.

CURRENT ISSUES

The Long Beach 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 operating millage has stabilized at 55 mills. 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 will remain stable around 3325.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Long Beach School District, 19148 Commission Road, Long Beach, MS 39560.