

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

The discussion and analysis of Louisville Municipal 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. This report will present certain comparative information between fiscal year 2003 and 2004.

The Louisville Municipal School District consists of the following schools: Fair Elementary School (K-3), Louisville Elementary School (4-6), Eiland Middle School (7-8), Louisville High School (9-12), Nanih Waiya Attendance Center (K-12), Noxapater Attendance Center (K-12), and the Winston-Louisville Vocational Center. As of the end of September 2003, the total enrollment was 2,965. The district had 452 regular staff members.

### **FINANCIAL HIGHLIGHTS**

- Total net assets increased \$431,853, including the effect of prior period adjustments of \$8,602, which represents a 4% increase from fiscal year 2003. To keep a healthy reserve in a very unstable economy, the district saw a year of very controlled staffing and spending practices and careful review and use of all resources when budgeting for 2004.
- General revenues account for \$15,618,545 in revenue, or 75 % of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,286,874 or 25 % of total revenues.
- The District had \$20,482,168 in expenses; only \$5,286,874 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$15,618,545 were adequate to provide for these programs.
- Among major funds, the General Fund had \$15,947,425 in revenues and \$14,606,854 in expenditures. The General Fund's fund balance increased \$377,017 over the prior year.

This increase reflects careful staffing of teachers and assistant teachers in the schools, controlled expenditures for supplies and equipment, and a mild winter with stable utility costs and gasoline prices.

- Capital assets, net of accumulated depreciation, decreased by \$82,675. During FY 2004, the school district added items to the inventory totaling \$317,593 and deleted items from the inventory totaling \$440,714. However, the accumulated depreciation for FY 2004 was a net decrease of \$40,446 causing a further decrease when showing capital assets net of accumulated depreciation.
- Long-term debt was decreased by \$160,899. The Three Mill-10 Year Note with AmSouth Bank was paid off in April 2004; the payment of \$121,848 makes up 76% of the decrease in 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 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 fund.

Additionally, a schedule of expenditures of federal awards is 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 \$11,417,526 as of June 30, 2004.

By far the largest portion \$6,420,657 of the District's net assets (56%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment) 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 years 2003 and 2004.

	2003 <u>Amount</u>	2004 <u>Amount</u>	Total <u>% Change</u>
Current assets	\$ 6,047,449	\$ 6,592,161	9.0%
Capital assets, net	<u>6,503,332</u>	<u>6,420,657</u>	(1.3)%
<b>Total assets</b>	<b><u>12,550,781</u></b>	<b><u>13,012,818</u></b>	<b>3.7%</b>
Current liabilities	1,030,700	1,221,783	18.5%
Long-term debt outstanding	<u>534,408</u>	<u>373,509</u>	(30.0)%
<b>Total liabilities</b>	<b><u>1,565,108</u></b>	<b><u>1,595,292</u></b>	<b>1.9%</b>
	2003 <u>Amount</u>	2004 <u>Amount</u>	Total <u>% Change</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	6,197,770	6,420,657	3.6%
Restricted	2,302,427	2,279,038	(1.0)%
Unrestricted	<u>2,485,476</u>	<u>2,717,831</u>	9.3%
<b>Total net assets</b>	<b><u>10,985,673</u></b>	<b><u>\$ 11,417,526</u></b>	<b>3.9%</b>

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2004 were \$20,905,419. The total cost of all programs and services was \$20,482,168. The following table presents a summary of the changes in net assets for the fiscal years 2003 and 2004.

	<u>2003</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Total</u> <u>% Change</u>
<b>Revenues:</b>			
Program revenues	\$ 5,143,221	\$ 5,286,874	2.8%
General revenues	<u>15,238,732</u>	<u>15,618,545</u>	2.5%
<b>Total revenues</b>	<b><u>20,381,953</u></b>	<b><u>20,905,419</u></b>	<b>2.6%</b>
<b>Expenses:</b>			
Instruction	11,981,950	12,465,239	4.0%
Support services	5,745,899	6,532,523	13.7%
Non-instructional	1,334,984	1,417,693	6.2%
Sixteenth section	44,024	60,665	37.8%
Interest on long-term liabilities	<u>14,625</u>	<u>6,048</u>	(58.6)%
<b>Total expenses</b>	<b><u>19,121,482</u></b>	<b><u>20,482,168</u></b>	<b>7.1%</b>
<b>Increase in net assets</b>	<b><u>\$ 1,260,471</u></b>	<b><u>\$ 423,251</u></b>	<b>(66.4)%</b>

**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.

	Total Expenses			Net (Expense) Revenue		
	<u>2003</u>	<u>2004</u>	<u>% Change</u>	<u>2003</u>	<u>2004</u>	<u>% Change</u>
Instruction	\$11,981,950	\$12,465,239	4.0%	\$ (9,215,246)	\$ (9,747,804)	( 5.8)%
Support services	5,745,899	6,532,523	13.7%	(4,720,186)	(5,353,138)	(13.4)%
Non-instructional	1,334,984	1,417,693	6.2%	5,089	(63,091)	(1139.7)%
Sixteenth section	44,024	60,665	37.8%	(33,293)	(25,213)	24.3%
Interest on long-term Liabilities	<u>14,625</u>	<u>6,048</u>	(58.6)%	<u>(14,625)</u>	<u>(6,048)</u>	(58.6)%
<b>Total expenses</b>	<b><u>\$19,121,482</u></b>	<b><u>\$ 20,482,168</u></b>	<b>7.1%</b>	<b><u>\$(13,978,261)</u></b>	<b><u>\$(15,195,294)</u></b>	<b>8.7%</b>

- Net cost of governmental activities \$15,195,294, was financed by general revenue, which is made up of primarily property taxes \$3,262,821 and state revenue \$11,753,249.
- Investment earnings accounted for \$75,156 of funding. The district was in a one year depository agreement with People's Bank and Trust company with a minimum rate of 1.631% interest paid on deposited funds.

## **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 \$5,371,327, an increase of \$351,798, including the effects of prior period adjustments of \$8,602 and change in reserve for inventory of \$(4,203), due primarily to the efficient use of staff and resources, sales of Sixteenth Section timber, lower utility costs and stable gasoline prices. \$3,071,957 or 57% 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 \$2,299,370 or 43% is reserved or designated to indicate that it is not available for spending because it has already been committed. \$1,404,305 of the reserved/designated fund balance belongs to the Sixteenth Section Interest Fund; these funds can be transferred to general funds and used for operating expenditures at the discretion of the Board. Sixteenth Section Principal Fund has an ending balance of \$177,937; these funds can only be invested or loaned to the District. Forestry Escrow's balance of \$243,559 is committed to Sixteenth Section property improvements as approved by the District Forestry Commission. School Food Service ended the year with a fund balance of \$290,390. \$34,663 remains in debt service funds and Unemployment Compensation has an ending balance of \$65,565.

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 \$377,017, a result of continued careful management of all resources and tight control over staffing and other expenditures. The District is making a conscious effort to keep a healthy fund balance in light of an unstable economy and questionable revenue collections. The fund balance of Other Governmental Funds showed a decrease of \$284,549 due primarily to a change in posting of revenues (all MAEP funds are now posted to District Maintenance and then 'transferred out' to Special Education and Vocational Education.

## **BUDGETARY HIGHLIGHTS**

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

- Budget amounts for revenue from state sources was increased to reflect additional funding for Mississippi Adequate Education. The original budgeted amounts were underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education. Expenditures were amended to move funds into Instruction from other categories and to reflect higher utility and maintenance costs.

- Budgeted amounts for revenue from federal sources was increased due to additional Title and Special Education Funds received. Budget amounts for expenditures were increased due to the availability of these additional funds.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and Sixteenth Section Interest Fund 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 \$12,434,458, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$123,121 from the previous year. The most significant decreases to the Capital Assets Inventory were mobile equipment. Total accumulated depreciation as of June 30, 2004 was \$6,013,801 and total depreciation expense for the year was \$360,641, resulting in total net assets of \$6,420,657.

**Debt Administration.** At June 30, 2004, the District had \$373,509 in general obligation bonds and other long-term debt outstanding, of which \$40,963 is due within one year.

Since the District has not had any bond issues, it is non-rated.

## **CURRENT ISSUES**

The Louisville Municipal School District is financially stable. The District is proud of its community support of the public schools. As a consolidated school district, the District is pleased with the good working relationships it has with the City of Louisville and the Winston County governments.

The District has committed itself to financial excellence for many years. The millage has actually decreased from 46.00 mills in FY 1991-1992 to 39.26 mills in FY 2003-2004. (An average of 1.6 mills levied each year goes for fees charged by the City of Louisville and Winston County to collect school taxes.) As the District is aware of Winston County's high unemployment rate and the hard economic times for many people residing in the city and county, it will continue to try to keep the millage rate as low as possible while maintaining excellence in the public schools.

In addition, the District system of financial planning, budgeting and internal financial controls is well regarded. Over the past 10 years, the District has had a trend of declining enrollment and ADA. Because of this trend and the current unstable state and federal funding climate, the District has been very conservative in incurring debt. The final payment on a Three Mill 10 Year Note was made in April 2004. This leaves the District with a Shortfall Note which will be paid off in calendar year 2005 and two interest free EPA Asbestos Loans which will be paid off in 2012. 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 decline by 54 students. The budget for the next fiscal year has taken into account this reduction in both funding and staffing needs.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Louisville Municipal School District, P. O. Box 909, 112 South Columbus Avenue, Louisville, Mississippi, 39339.