

STONE COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2004

The discussion and analysis of Stone 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 an 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 and is included in this discussion and analysis.

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments of \$468,509, increased \$952,077 which represents a 13% increase from fiscal year 2003. During the fiscal year, the district limited expenditures in order to increase the fund balance of the General Fund. This resulted in an increase in net assets. In addition, net assets increased as a result of the addition of capital assets and adjustments made to decrease accumulated depreciation on capital assets that was overstated in the previous fiscal year. The increase in net assets is also a result of the decrease in long-term debt resulting from principal payments made during the fiscal year.
- General revenues account for \$13,806,146 in revenue, or 78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,909,246, or 22% of total revenues.
- The District had \$17,231,824 in expenses; only \$3,909,246 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$13,806,146 were adequate to provide for these programs.
- Among major funds, the General Fund had \$13,243,029 in revenues and \$12,940,561 in expenditures. The General Fund's fund balance, including the effect of prior period adjustments, increased \$134,873 from the prior year. This increase is primarily due to the limitation of expenditures during the fiscal year in order to increase the fund balance of the General Fund.
- Capital assets, net of accumulated depreciation, increased by \$207,175. This increase is due primarily to adjustments to the prior year capital asset balances needed to correct the capital asset balances and accumulated depreciation as of June 30, 2004. Prior year accumulated depreciation was overstated.

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- Long-term debt decreased by \$584,958. This decrease is due primarily to principal payments made during the fiscal year 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 are comprised of 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.

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.

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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 a separate Statement of Fiduciary Obligations – Agency Funds.

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.

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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.

Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Circular 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 \$7,859,602 as of June 30, 2004.

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. \$3,776,365 of the District's net assets (48%) 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. \$1,418,040 of the District's net assets (19%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$2,665,197 of the District's net assets (33%) 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.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2004 and comparative data for the fiscal year ended June 30, 2003.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets	\$ 4,574,148	\$ 4,163,979
Capital assets, net	<u>7,703,815</u>	<u>7,496,640</u>
Total assets	<u>12,277,963</u>	<u>11,660,619</u>
Current liabilities	96,160	193,224
Long-term debt outstanding	<u>4,322,201</u>	<u>4,559,870</u>
Total liabilities	<u>4,418,361</u>	<u>4,753,094</u>

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Net assets:

Invested in capital assets, net of related debt	3,776,365	2,996,048
Restricted	1,418,040	1,567,452
Unrestricted	<u>2,665,197</u>	<u>2,344,025</u>
Total net assets	\$ <u>7,859,602</u>	\$ <u>6,907,525</u>

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

- Other assets increased from the prior fiscal year because deferred charges related to bond issuance costs were reported as other assets in the current fiscal year but were reported as a reduction of long-term debt outstanding in the prior fiscal year.
- Capital assets increased from the prior fiscal year due primarily to adjustments to beginning capital asset balances needed to correct the capital asset balances and accumulated depreciation at June 30, 2004. Prior year accumulated depreciation was overstated.
- Long-term debt decreased from the prior fiscal year due to principal payments made on existing long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2004 were \$17,715,392. The total cost of all programs and services was \$17,231,824. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2004 and comparative data for the fiscal year ended June 30, 2003.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Revenues:		
Program revenues	\$ 3,909,246	\$ 12,876,140
General revenues	<u>13,806,146</u>	<u>4,036,013</u>
Total revenues	<u>17,715,392</u>	<u>16,912,153</u>
Expenses:		
Instruction	10,288,486	9,470,432
Support services	5,670,516	5,927,325
Non-instructional	1,058,072	359,009
Sixteenth section	14,405	22,790
Interest and other expenses on long-term liabilities	<u>200,345</u>	<u>247,301</u>
Total expenses	<u>17,231,824</u>	<u>16,026,857</u>
Prior period adjustments	<u>468,509</u>	<u>0</u>
Increase in net assets	\$ <u>952,077</u>	\$ <u>885,296</u>

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

- Program revenues decreased and general revenues increased significantly from the prior year because Mississippi Adequate Education Program funds were reported as program revenues in the prior fiscal year but were reported as general revenues in the current fiscal year.
- Instructional expenses increased from the prior year due primarily to the 8% increase in teacher salaries and increased insurance costs.
- Non-instructional expenses increased from the prior year due primarily to a 6% increase in salaries and increased insurance costs.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2004, 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.

	2004		2003	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	\$ 10,288,486	\$ (8,358,874)	\$ 9,470,432	\$ 1,343,388
Support services	5,670,516	(4,785,678)	5,927,325	(5,688,605)
Non-instructional	1,058,072	22,033	359,009	1,367,423
Sixteenth section	14,405	286	22,790	74,378
Interest on long-term liabilities	200,345	(200,345)	247,301	(247,301)
Total expenses	\$ 17,231,824	\$(13,322,578)	\$ 16,026,857	\$(3,150,717)

- Total expenses increased from prior year due primarily to the increase in salaries and increase in insurance costs.
- Net cost of governmental activities increased from the prior fiscal year because Mississippi Adequate Education Program funds were reported as program revenues in the prior fiscal year but were reported as general revenues in the current fiscal year.
- Net cost of governmental activities for fiscal year 2004 in the amount of \$13,322,578 was financed by general revenue, which is made up of primarily property taxes totaling \$3,464,327 and state revenue totaling \$9,886,354.
- Investment earnings accounted for \$56,607 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 fiscal year June 30, 2004, its governmental funds reported a combined fund balance of \$4,182,605, an increase of \$160,617, before prior period adjustments and a decrease in reserve for inventory. This change in fund balance is due primarily to the increase in the fund balance of the General Fund resulting from the limitation of expenditures in order to build up the fund balance. \$3,662,596, or 87%, of the fund balance is reported by general and special revenue fund type on the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be spent on school based activities. The remaining fund balance of \$520,009, or 13%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, unemployment benefits, forestry improvements, debt service purposes and 16th section principal (permanent fund) investment purposes.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year, before prior period adjustments, was \$136,712, a result of the limitation of expenditures during the fiscal year in order to build up the fund balance. The fund balance of the School Food Service Fund decreased \$18,404 due primarily to the transfer out for indirect costs during the fiscal year. There was no change in fund balance for the Title I-A Basic Fund and the EHA, Part B Fund. The fund balance of the 21st Century Learning Centers Fund decreased \$70. The fund balance of Other Governmental Funds increased \$42,379 due to an increase in fund balance of various funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant revisions to the budget are as follows:

- Budgeted amounts for revenue from local sources in the General Fund were increased to reflect the increase in advalorem receipts during the fiscal year. In addition, the original budget did not include revenue received from contributions and donations and activity fund revenue.

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- Budgeted amounts for revenue from state sources in the General Fund were decreased. The original budget reflected the receipt of EEF funds in the general fund but the funds were actually receipted in the appropriate special revenue fund. In addition, funds received under the Mississippi Adequate Education Program (MAEP) were less than originally budgeted.
- Budgeted amounts for revenue from federal sources in the General Fund were increased to reflect the special education funds received but not originally budgeted and the increase in national forestry receipts.
- Budgeted amounts for support services expenditures in the General Fund were decreased. Expenditures were decreased in various areas of support services in order to offset the decrease in MAEP revenue received.
- Budgeted amounts for facilities acquisition and construction expenditures in the General Fund were decreased because projects originally planned for the current fiscal year were delayed until the next fiscal year.
- Budgeted amounts for transfers in and transfers out of the General Fund were revised to reflect actual transfers during the fiscal year.
- Budgeted amounts for instructional expenditures in the Title I-A Basic Fund were increased to reflect the increase in salaries and benefits and the increase in expenditures due to the carryover in Title I and Extended School Year funds.
- Budgeted amounts for transfers in and transfers out of the Title I-A Basic Fund were revised to reflect actual transfers during the fiscal year.
- Budgeted amounts for revenue from federal sources in the EHA Part B Fund were increased to reflect the carryover funds and the increase in the 2004 fiscal year allocation.
- Budgeted amounts for instructional expenditures in the EHA Part B Fund were increased to reflect the increase in salaries, the addition of four new teacher assistants and the increase in the number of students sent to the private hospital. The original budget was based on the previous fiscal year's budget until the current fiscal year allocation was received.
- Budgeted amounts for support services expenditures in the EHA Part B Fund were increased. Services that were reported as instructional expenditures in the prior fiscal year were reported as support services expenditures in the current fiscal year. The original budget was based on the previous fiscal year's budget until the current fiscal year allocation was received.

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- Budgeted amounts for revenue from federal sources in the 21st Century Learning Centers Fund were increased to reflect the increase in federal funds actually received during the fiscal year.
- Budgeted amounts for support services expenditures in the 21st Century Learning Centers Fund were increased to reflect the increase in salaries and benefits.

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, 2004, the District's total capital assets, before depreciation, were \$13,325,521, including land, buildings, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases. This amount represents a decrease, before depreciation, of \$320,804 from the previous year. During the fiscal year, the district purchased two buses and several items of furniture and equipment totaling \$139,506. The district also disposed of eleven buses, two cars, a truck and several items of furniture and equipment totaling \$317,006. Adjustments were also made to prior year capital asset balances in order to properly state the capital asset balances at June 30, 2004.

Total depreciation expense for the year was \$367,633. Adjustments were also made to prior year accumulated depreciation balances in order to properly state the accumulated depreciation balances at June 30, 2004. Prior year accumulated depreciation was significantly overstated. After adjustments, total accumulated depreciation as of June 30, 2004 was \$5,621,706, resulting in total net assets of \$7,703,815.

Debt Administration. At June 30, 2004, the District had \$4,322,201 in general and limited obligation bonds and other long-term debt outstanding, of which \$634,006 is due within one year. During the fiscal year, the district made principal payments in the amount of \$602,083 on existing long-term debt.

CURRENT ISSUES

The Stone 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 rate for fiscal years 2003 and 2004 was 47.02. The District's 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.

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Latest enrollment figures indicate that student enrollment in the District has increased from 1,965 students in fiscal year 2003 to 2,703 (based upon first month enrollment figures) students in fiscal year 2004. The budget for the next fiscal year has taken into account this increase 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 Stone County School District, 214 Critz Street, Wiggins, MS 39577.