

**Lee County School District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2005**

The discussion and analysis of Lee County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion is to look at the School District's performance as a whole; readers should also review the basic financial statements and the notes to the basic 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.

**FINANCIAL HIGHLIGHTS**

Net Assets increased \$1,123,409, which is an increase of 4% from fiscal year 2004. This increase was due mainly to the completion of construction projects and the reduction of long term debt.

<u>Revenue and Expense</u>	<u>Revenues</u>	<u>%</u>	<u>Expenses</u>	<u>%</u>
General	\$ 37,254,877	84	\$ 36,131,468	84
Program	\$ 7,095,983	16	\$ 7,095,983	16
Total	<u>\$ 44,350,860</u>	100	<u>\$ 43,227,451</u>	100

(Program revenues are those which are received in the form of charges for services, grants and contributions and are applied to specific programs.)

<u>General Fund</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Fund Balance</u>
2004	\$ 32,398,460	\$ 31,104,285	\$ 7,011,673
2005	\$ 34,359,393	\$ 34,092,155	\$ 7,133,830
Net Change	<u>\$ 1,960,933</u>	<u>\$ 2,987,870</u>	<u>\$ 122,157</u>

The fund increase from the prior year was a result of increases in local and state revenues and a reduction in long term debt.

<u>Capital Assets</u> , net of accumulated depreciation	<u>2004</u>	<u>2005</u>	<u>Net Change</u>
	\$ 44,695,898	\$ 47,040,756	\$ 2,344,858

The decrease in net value of capital assets resulted mainly from the depreciation of capital assets.

<u>Long-term Debt</u>	<u>2004</u>	<u>2005</u>	<u>Net Change</u>
	\$30,087,557	\$28,895,669	(\$1,191,888)

**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

The statement of net assets presents information on all the District's assets and liabilities, with the difference between assets and liabilities being 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

**Lee County School District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2005**

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, other debt and interest on long-term liabilities.

The government-wide financial statements, Exhibit A and Exhibit B, can be found in this report.

**Fund financial statement.** 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 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. 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. This required supplementary information can be found in this report.

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

**Lee County School District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2005**

case of the District, assets exceeded liabilities by \$30,978,893 as of June 30, 2005.

By far the largest portion of the District's net assets reflects its investment in capital assets (e.g. land, buildings, 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. Capital assets percentage of net assets is 60%.

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, 2005 compared to 2004.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Current assets	\$ 15,721,430	\$ 18,524,835	-15%
Capital assets, net	47,040,756	44,695,898	5%
<b>Total assets</b>	<b>\$ 62,762,186</b>	<b>\$ 63,220,733</b>	<b>-1%</b>
Current liabilities	\$ 4,724,780	\$ 5,116,194	-8%
Long-term liabilities	27,058,513	28,249,055	-4%
<b>Total liabilities</b>	<b>\$ 31,783,293</b>	<b>\$ 33,365,249</b>	<b>-5%</b>
<b>Net assets:</b>			
Capital assets, net	\$ 18,621,756	\$ 19,926,038	-7%
Restricted	4,924,269	2,880,990	71%
Unrestricted	7,432,868	7,048,456	5%
<b>Total net assets</b>	<b>\$ 30,978,893</b>	<b>\$ 29,855,484</b>	<b>4%</b>

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

• The principal retirement of long term debt:	\$ 1,807,196	
• Additions to capital assets and improvements:	\$ 3,959,896	

**Changes in net assets.** The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 compared to 2004.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
<b>Revenues:</b>			
Program revenues	\$ 7,095,983	\$ 6,033,219	18%
General revenues	37,254,877	35,194,261	6%
<b>Total revenues</b>	<b>44,350,860</b>	<b>41,227,480</b>	<b>8%</b>
<b>Expenses:</b>			
Instruction	25,658,430	23,152,509	11%
Support services	13,619,861	12,281,308	11%
Non-instructional	2,729,217	2,249,395	21%
Interest on long-term debt	1,219,943	1,788,681	-32%
<b>Total expenses</b>	<b>\$ 43,227,451</b>	<b>\$ 39,471,893</b>	<b>10%</b>

**Lee County School District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2005**

**Change in net assets:**     \$    1,123,409                     \$            1,755,587                     -36%

**Governmental activities .** The following table presents the net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs) of five major activities: instruction, support services, non-instructional, other debt and interest on long-term debt. The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

**Net (Expense) Revenue**

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Instruction	\$ (21,450,365)	\$ (20,676,199)	4%
Support services	(13,424,152)	(11,168,555)	20%
Non-instructional	(37,008)	194,761	-119%
Interest on long-term debt	(1,219,943)	(1,788,681)	-32%
<b>Total expenses</b>	<b>\$ (36,131,468)</b>	<b>\$ (33,438,674)</b>	<b>8%</b>
Net cost of activities	\$ (36,131,468)	\$ (33,438,674)	8%
1) property taxes of	11,856,325	10,925,788	9%
2) state revenue of	24,195,522	23,443,457	3%
3) federal revenue of	161,185	159,111	1%
Investment earnings of	463,161	660,649	-30%

**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 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. The following table reflects fund balances for the fiscal year ending June 30, 2005 compared to fiscal year 2004.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Unreserved/undesignated	\$ 7,852,231	\$ 7,906,295	-1%
Reserved or designated	4,989,911	7,340,134	-32%
<b>Total fund balance</b>	<b>\$ 12,842,142</b>	<b>\$ 15,246,429</b>	<b>-16%</b>
General Fund	\$ 7,133,830	\$ 7,011,673	2%
Other Governmental Funds:	5,708,312	8,234,756	-31%
<b>Total fund balance</b>	<b>\$ 12,842,142</b>	<b>\$ 15,246,429</b>	<b>-16%</b>

Unreserved and undesignated funds are funds which are available for spending at the District's discretion. Reserved or designated funds are those which are committed for debt service and capital improvements. The General Fund is the principal operating fund of the District.

**BUDGETARY HIGHLIGHTS**

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

A schedule showing the original and final budget amounts compared to the District's actual revenue and expenditure amounts for the General Fund and other major special revenue funds is provided in this

**Lee County School District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2005**

report as required supplementary information.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** The table below summarizes and compares capital assets and accumulated depreciation for the fiscal year June 30, 2005 and compares it to those corresponding values for 2004.

	<u>2005</u>		<u>2004</u>	<u>% Change</u>
Total Capital Assets	\$ 60,940,868	\$	57,624,124	8%
Accumulated Depreciation	<u>13,900,112</u>		<u>12,928,226</u>	8%
<b>Total net assets</b>	<b><u>\$ 47,040,756</u></b>	<b><u>\$</u></b>	<b><u>44,695,898</u></b>	5%

Additional information of the District's capital assets can be found the notes attached to this report.

**Debt Administration.** The table below summarizes and compares general obligation bonds and other long-term debt for the fiscal year June 30, 2005 and compares it to those corresponding values for 2004.

	<u>2005</u>		<u>2004</u>	<u>% Change</u>
General Obligation Bonds	\$ 27,910,000	\$	29,175,000	-4%
Other	<u>985,669</u>		<u>912,557</u>	8%
<b>Total long-term debt</b>	<b><u>\$ 28,895,669</u></b>	<b><u>\$</u></b>	<b><u>30,087,557</u></b>	-4%

Additional information of the District's long-term debt can be found in the notes attached to this report.

**CURRENT ISSUES**

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

The District is now committed to financial excellence. The millage has not increased over the past two years despite funding cuts and additional mandated expenditures by the State of Mississippi. In addition, the district system of financial planning, budgeting and internal financial controls are now 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 increase slightly. 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, you may contact:  
Office of the Superintendent  
Lee County Schools  
1280 College View Drive  
Tupelo, MS 38804