

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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, 2005. 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. This report will present certain comparative information between fiscal year 2004 and 2005.

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 2004, the total enrollment was 2,911 (down 54 from September 2003); the district had 440 regular staff members (down 12 from September 2003).

FINANCIAL HIGHLIGHTS

- Total net assets increased \$765,189, which represents a 7% increase from fiscal year 2004. 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 2005.
- General revenues account for \$16,067,016 in revenue, or 75 % of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,375,170 or 25 % of total revenues.
- The District had \$20,676,997 in expenses; only \$5,375,170 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$16,067,016 were adequate to provide for these programs.

- Among major funds, the General Fund had \$16,000,408 in revenues and \$14,730,954 in expenditures. The General Fund's fund balance increased \$168,357 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. Higher fuel costs account for an increase smaller than the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$119,140. During FY 2005, the school district added items to the inventory totaling \$256,863 and deleted items from the inventory totaling \$93,381. The accumulated depreciation for FY 2005 was a net increase of \$282,622 causing a further decrease when showing capital assets net of accumulated depreciation.
- Long-term debt was decreased by \$46,761. The decrease consists of a \$18,500 principal payment to BanCorpSouth, Series 2002 Shortfall Note, payments totaling \$22,463 on the EPA Asbestos Loans (interest free) and net Compensated Absences payments/increases of \$5,798.

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.

The government-wide financial statements can be found on pages 17 - 18 of this report.

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. These reconciliations are on pages 20 and 22, respectively.

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.

The basic governmental fund financial statements can be found on pages 19 - 22 of this report.

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 on page 23.

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. The notes to the financial statements can be found on pages 25 – 36 of this report.

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 on pages 39 – 41 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on pages 43-44 of 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 \$12,182,715 as of June 30, 2005.

By far the largest portion \$6,301,517 of the District’s net assets (52%) 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 are 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 2004 and 2005.

	2004 <u>Amount</u>	2005 <u>Amount</u>	Total <u>% Change</u>
Current assets	\$ 6,592,161	\$ 7,341,287	11.4%
Capital assets, net	<u>6,420,657</u>	<u>6,301,517</u>	(1.9)%
Total assets	<u>\$13,012,818</u>	<u>\$ 13,642,804</u>	4.8%
Current liabilities	\$ 1,221,783	\$ 1,133,341	(7.2)%
Long-term debt outstanding	<u>373,509</u>	<u>326,748</u>	(12.5)%
Total liabilities	<u>\$ 1,595,292</u>	<u>\$ 1,460,089</u>	(8.5)%

	<u>2004</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Total</u> <u>% Change</u>
Net assets:			
Invested in capital assets, net of related debt	6,420,657	6,301,517	(1.9%)
Restricted	2,279,038	2,948,249	29.4%
Unrestricted	<u>2,717,831</u>	<u>2,932,949</u>	7.9%
Total net assets	<u>11,417,526</u>	<u>\$ 12,182,715</u>	6.7%

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$21,442,186. The total cost of all programs and services was \$ 20,676,997. The following table presents a summary of the changes in net assets for the fiscal years 2004 and 2005.

	<u>2004</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Total</u> <u>% Change</u>
Revenues:			
Program revenues	\$ 5,286,874	\$ 5,375,170	1.7%
General revenues	<u>15,618,545</u>	<u>16,067,016</u>	2.9%
Total revenues	<u>20,905,419</u>	<u>21,442,186</u>	2.6%
Expenses:			
Instruction	12,465,239	12,668,480	1.6%
Support services	6,532,523	6,497,194	(0.5)%
Non-instructional	1,417,693	1,474,739	4.0%
Sixteenth section	60,665	35,516	(41.5)%
Interest on long-term liabilities	<u>6,048</u>	<u>1,068</u>	(82.3)%
Total expenses	<u>20,482,168</u>	<u>20,676,997</u>	1.0%
Increase in net assets	<u>\$ 423,251</u>	<u>\$ 765,189</u>	80.8%

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>2004</u>	<u>2005</u>	<u>% Change</u>	<u>2004</u>	<u>2005</u>	<u>% Change</u>
Instruction	\$12,465,239	\$12,668,480	1.6%	\$ (9,747,804)	\$ (9,941,473)	(2.0)%
Support services	6,532,523	6,497,194	(0.5)%	(5,353,138)	(5,363,675)	(0.2)%
Non-instructional	1,417,693	1,474,739	4.0%	(63,091)	(50,963)	19.2%
Sixteenth section	60,665	35,516	(41.5)%	(25,213)	55,352	119.5%
Interest on long-term Liabilities	<u>6,048</u>	<u>1,068</u>	(82.3)%	<u>(6,048)</u>	<u>(1,068)</u>	82.3%
Total expenses	<u>\$20,482,168</u>	<u>20,676,997</u>	1.0%	<u>\$(15,195,294)</u>	<u>\$(15,301,827)</u>	0.7%

- Net cost of governmental activities (\$15,301,827), was financed by general revenue, which is primarily made up of property taxes \$3,424,056 and state revenue \$11,687,016.
- Investment earnings accounted for \$ 134,045 of funding. The district was in a one year depository agreement with People's Bank and Trust company with a minimum rate of 1.723% 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 \$6,208,444, an increase of \$ 837,117 due primarily to the efficient use of staff and resources, and sales of Sixteenth Section timber. \$ 3,242,632 or 52% 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 \$ 2,965,812 or 48% is reserved or designated to indicate that it is not available for spending because it has already been committed. \$2,016,767 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 \$183,355; these funds can only be invested or loaned to the District. Forestry Escrow's balance of \$308,062 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 \$228,087. \$16,340 remains in debt service funds and Unemployment Compensation has an ending balance of \$62,239.

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 \$ 168,357, 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 an increase of \$65,011 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 were 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 were 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, 2005, the District's total capital assets were \$12,597,940, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$163,482 from the previous year. The most significant increases to the Capital Assets Inventory were mobile equipment. Total accumulated depreciation as of June 30, 2005 was \$6,296,423 and total depreciation expense for the year was \$366,240, resulting in total net assets of \$6,301,517.

Additional information of the District's capital assets can be found in Note 5 on page 33 of this report.

Debt Administration. At June 30, 2005, the District had \$ 326,748 in long-term debt outstanding, of which \$42,905 is due within one year. The debt of the district consist of a short-fall note in the amount of \$20,442, Environmental Protection Agency Asbestos loans totaling \$138,789 and compensated absences liability in the amount of \$167,517.

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

Additional information of the District's long-term debt can be found in Note 6 on page 34 of this report.

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 39.56 mills in FY 2004-2005. (This includes a levy of 1.9 mills 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 staffing and in incurring debt. Currently, the District has 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 remain about the current level. The budget for the next fiscal year has taken this and previous years of declining enrollments in planning 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.