# MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Sample School District 100-1’s (School) annual financial report presents our discussion and analysis of the School’s financial performance during the fiscal year ended on June 30, 20\_\_. Please read it in conjunction with the School’s financial statements, which follow this section.

# FINANCIAL HIGHLIGHTS

* During the year, the School’s revenues generated from taxes and other revenues of the governmental and business-type programs were $\_\_\_\_\_\_\_\_\_ more than the $\_\_\_\_\_\_\_\_\_ governmental and business-type program expenditures.
* The total cost of the School’s programs increased by less than 4% which primarily due to controlling operation and maintenance supply expenses and a hiring freeze implemented by the school board.
* The general fund reported a $\_\_\_\_\_\_\_ current year surplus primarily due to controlling expenses.
* The School refunded $\_\_\_\_\_\_\_ in outstanding capital outlay certificates by issuing $\_\_\_\_\_\_\_\_ in capital outlay certificates. The resulted in an economic gain of approximately $\_\_\_\_\_\_\_\_ in total debt service cost over the life of the certificates.

# OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

* The first two statements are government-wide financial statements that provide both long-term and short-term information about the School’s overall financial status.
* The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School’s operations in more detail than the government-wide statements.
* The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
* Proprietary fund statements offer short- and long-term financial information about the activities that the school operates like businesses. The only proprietary fund operated by the school is the Food Service Operation.
* Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the School’s financial statements, including the portion of the School government covered and the types of information contained. The reminder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Figure A-1 | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |
| Major Features of Sample School's Government-wide and Fund Financial Statements | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | Fund Statements | | | | | |
|  |  |  | Government-wide Statements |  | Governmental Funds |  | Proprietary Funds |  | Fiduciary Funds | |
|  |  |  |  |  |  |  |  |  |  | |
| Scope | Entire School government (except fiduciary funds and the fiduciary component units) | The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs. | Activities the School operates similar to private businesses, the food service operation. | Instances in which the School is the trustee or agent for someone else's resources. | |
|  |  |  |  |  |  |  |  |  |  | |
|  | Required Financial Statements |  | \*Statement of Net   Position  \*Statement of Activities |  | \*Balance Sheet  \*Statement of Revenues,  Expenditures and   Changes in Fund   Balances |  | \*Statement of Net  Position  \*Statement of   Revenues,   Expenses and   Changes in Net   Position  \*Statement of Cash   Flows |  | \*Statement of Net  Position  \*Statement of Changes   in Net Position | |
|  | Accounting Basis and  Measurement Focus |  | Accrual accounting and economic resources focus |  | Modified accrual accounting and current financial resources focus |  | Accrual accounting and economic resources focus |  | Accrual accounting and economic resources focus | |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Type of Asset/Liability  Information |  | All assets and liabilities, both  financial and capital, and short-term and long-term |  | Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included |  | All assets and liabilities, both  financial and capital, and short-term and long-term |  | All assets and liabilities, both short-term and long-term; the School's funds do not currently contain capital assets although they can | |
|  |  |  |  |  |  |  |  |  |  | |
| Type of Inflow/Outflow  Information |  | All revenues and expenses during year, regardless of when cash is received or paid |  | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is  due during the year or soon thereafter |  | All revenues and expenses during year, regardless of  when cash is received or paid |  | All revenues and expenses during year, regardless of when cash is received or paid | |

Government-wide Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School’s net position and how they have changed. Net position is one way to measure the School’s financial health or position.

* Increases or decreases in the School’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
* To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School’s property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the School are reported in two categories:

* Governmental Activities - This category includes the School’s basic instructional services, such as elementary and high school educational programs, support services (guidance councilor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
* Business-type Activities - The school charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the School.

# Fund Financial Statements

The fund financial statements provide more detailed information about the School’s most significant funds – not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending for particular purposes.

* State Law requires some of the funds.
* The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The School has three kinds of funds:

* Governmental Funds – Most of the School’s basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
* Proprietary Funds – Services for which the School charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund (one type of proprietary fund) is the only proprietary fund maintained by the School.
* Fiduciary Funds – The School is the trustee, or fiduciary, for various external and internal parties. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School’s fiduciary activities are reported in a separate statement of net position and a statement of changes in net position. We exclude these activities from the School’s government-wide financial statements because the School cannot use these assets to finance its operations.

# FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

# Net Position

The School’s combined net position increased as follows:



[INSERT AN EXPLANATION OF THE DIFFERENCES BETWEEN CURRENT AND PRIOR YEAR’S ASSETS, LIABILITIES AND CHANGES IN NET POSITION]

The Statement of Net Position reports all financial and capital resources. The statement presents the assets, deferred outflows of resources, liabilities and deferred inflows of resources in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the school, consisting of general obligation bonds, capital outlay certificates payable, compensated absences payable and early retirement benefits payable have been reported in this manner on the Statement of Net Position. The difference between the school’s assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is its net position.

# Changes in Net Position

[INSERT AN EXPLANATION OF SIGNIFICANT DIFFERENCES]

The School’s total revenues (excluding special items) totaled $19,734,144. (See Table A-2.) Approximately one-half of the School’s revenue comes from property and other taxes, with approximately 30% coming from state aid. (See Figure A-3).

The total cost of all programs and services was virtually unchanged. The School’s expenses cover a range of services, encompassing instruction, support services and food services. (See Figure A-4)

# GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Table A-2 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the school.



GOVERNMENTAL ACTIVITIES

[INSERT AN EXPLANATION OF SIGNIFICANT CHANGES OF DIFFERENCES – For example]

The governmental activities – general fund did show a significant increase in support services due to adding an additional principal position and an increase in transportation cost.

BUSINESS-TYPE ACTIVITIES

[INSERT AN EXPLANATION OF SIGNIFICANT CHANGES OF DIFFERENCES – For example]

Revenues of the School’s business-type activities (Food Service Operation) increased by approximately 6% to $754,736 and expenses increased by approximately 3% to 699,545. Factors contributing to these results included:

* There was an increase in the number of students attending the school during 20XX. This resulted in an increase in the number of meals served by the food service operations.
* The primary reason for the increase in expenses was due to normal increase in salaries and wages.

# FINANCIAL ANALYSIS OF THE SCHOOL’S FUNDS

The General, Capital Outlay, Special Education and Pension Funds did not have any significant change in fund balance for the year. However, the balance of the Impact Aid fund rose $250,000 for the year. These additional resources are anticipated to be needed in future periods.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the School Board revised the School budget several times. These amendments fall into three categories:

* Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for the education program of this district.
* Changes made to reflect the hiring freeze implemented by the School Board.
* Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

[INSERT DETAIL OF ANY SIGNIFICANT BUDGET CHANGES OR BUDGET VARIANCES – IF THERE WERE NO SIGNIFICANT CHANGES STATE SOMETHING LIKE THE FOLLOWING] -There were no significant budget changes or budget variances for the year.

CAPITAL ASSET ADMINISTRATION

By the end of 2005, the School had invested $22,059,403 (net of depreciation) in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of $490,338, or 2.27 percent, over last year resulting from building addition.



This year’s capital asset purchases were primarily building addition, computer hardware and food service equipment.

LONG-TERM DEBT

At year-end the School had $14,278,969 in General Obligation Bonds, Capital Outlay Certificates and other long-term obligations. This is an increase of 50.31% as shown on Table A-4 below.



The School is liable for the accrued vacation leave payable to the superintendent, business manager and head custodian.

The School also maintains an early retirement plan, which allows those meeting certain qualifications, to retire early and receive 75% of their last year's salary in one lump sum or in equal payments spread over the next three years. This plan allows the school to reduce the overall program cost by hiring lower paid teachers to replace the higher paid teachers.

During 20XX the school advance refunded $620,056 of the outstanding Series 1990 Capital Outlay Certificates by issuing $6,000,000 of Series 2005 Capital Outlay Certificates of which $610,000 was used to refund the Series 1990 Capital Outlay Certificates and $$5,390,000 was used to fund a new building addition. This resulted in the school reducing the overall debt service cost by approximately $8,000 and realizing an economic gain of approximately $12,000. The School paid the 20XX debt service principle and interest payments of the Series 1990 Capital Outlay Certificates in the amount of $40,000 for principle and $20,123 for interest.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The School’s current economic position has shown little change. The School did experience an increase in total property valuation of $850,000 or 4% from the prior year. The increase in property valuation allows the School the ability to increase the amount of revenue generated from property taxes by approximately $10,000, however, the total amount which can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the School is based on a per student allocation received from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal $3,700 per pupil. The allocation for the next year has been increased by 3%; however the school has experienced a reduction of 5 students average daily membership (ADM) each year. This reduction in ADM will result in the school receiving less overall revenue from the State of South Dakota even with the increase in the allocation.

The School’s fiscal year 20YY capital budget projects spending $200,000 on upgrading and remodeling six instructional classrooms. This project will be funded by a federal grant that will pay for 10% or $20,000 and School will pay for 90% or $180,000. The School has no plans to issue additional debt to finance this project

CONTACTING THE SCHOOL’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School’s finances and to demonstrate the School’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Sample School’s Business Office, 1st School Avenue, Sample, SD 57000.