

**Corvallis School District #1**  
**Management Discussion and Analysis (MD&A)**  
**For the Year Ended June 30, 2016**

The Superintendent and Business Manager/Clerk of the Corvallis School District #1 have provided this MD&A to give the reader of these statements an overview of the financial position and activities of the school district for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the Auditors financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

**Sources of Revenue.** There are two key components to the budget revenue stream: 1) funding provided by the Montana Legislature, and 2) funding from Federal dollars in the form of Title I dollars and IDEA Special Education monies. Because enrollment increased proportionately to the increase in state aid; however, in spite of the inflationary increase in funding from the state, there was a minimal increase in funding for the District. The funding from Federal Grants has declined as well, but through the practice of rolling over the maximum amount of dollars in these funds, we minimized fund decreases for the fiscal year.

**Donations.** Donations from the community continued to supplement funding for the district's programs. These donations provided technology infrastructure, devices for students and teachers and helped subsidize the salary of our school nurse, helped toward teacher supplies and student meals. Other instructional programs like Classroom without Walls and the 21<sup>st</sup> Century After-School program.

**Quality Education for All.** With a negligible increase in state funding, the Board continued their commitment to maintaining quality educational programs for all students. With special programs for at-risk and gifted and talented students, honor students, and Advance Placement course offerings.

**Using This Financial Report**

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). Components and purposes of the report are explained below.

**Reporting the School District as a Whole**

This report consists of financial statements for the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

- A. The Statement of Net Position (page 14) shows the "assets" (what is owned), "liabilities" (what is owed) and the "net assets" (the resources that would remain if all obligations were settled) of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.
- B. The Statement of Activities, (page 15) shows the amounts of program-specific and general school district revenues used to support the school district's various functions.

The Statement of Net Assets and the Statement of Activities includes:

Governmental activities – The school functions, including instruction, student services, administration, etc. Property taxes, state and federal revenues usually support most of these functions of the district.

### **Reporting the District’s Most Significant Funds**

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or “major” funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district’s operations, and the existence of legal budget requirements.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds such as the general fund, special revenue funds for transportation, retirement fund, school food service, and debt service and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the district’s activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements but not in the fund statements.

### **Reporting the District’s Trust and Fiduciary Responsibilities**

The district is the trustee, or fiduciary, for endowments and the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Position (pages 22-23) because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

### **Budget –to–Actual Comparisons**

The District’s original and final budgets had no significant changes for the year ended June 30, 2016.

#### **General Fund:**

The final tax revenue for the year was unknown until the end of July. However, our tax revenue has come in higher than the County’s estimate for many years. So thank you to our District’s tax payers.

**Transfers:**

During the year ended June 30, 2016, the District transferred Transportation Funds in the amount of \$58,000 to the Flex Fund, for the operations of the school for the 2016-2017 school year.

**All Budgeted Funds Interest revenue:** Interest was approximately \$10,175 more than last year. The total amount earned was \$26,590 compared to \$16,415 for the prior year.

**Total Tax Receivables**

At year-end our Tax Receivables due from tax-payers was \$102,894 compared to \$127,859 the year before.

**THE DISTRICT AS a WHOLE**

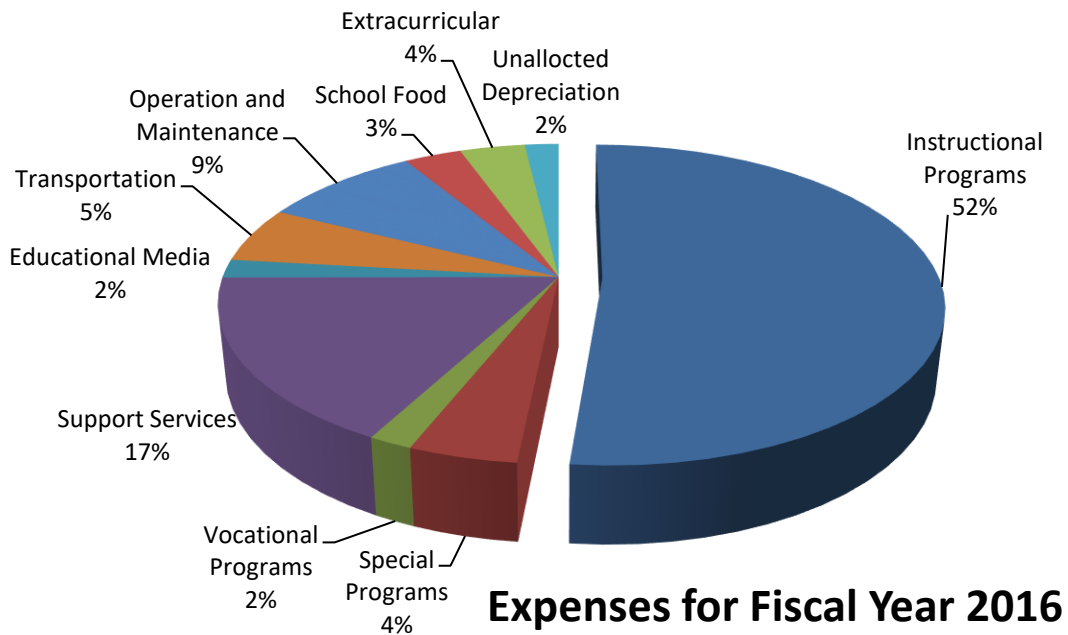
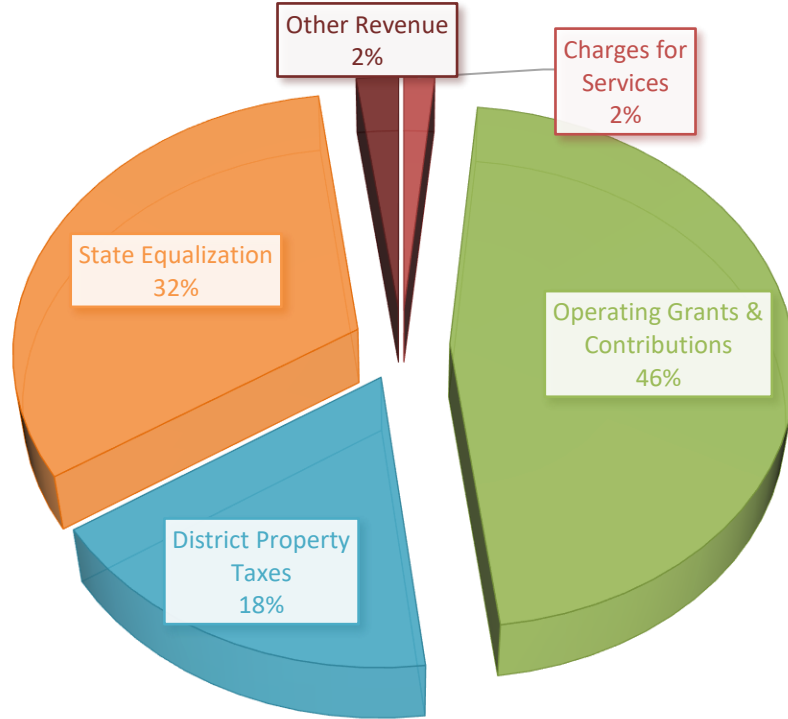
The change in net assets is one indicator of whether the District's financial health is improving or diminishing. The causes of this change may be the result of many factors, some financial, some not. Even though there are non-financial factors that also influence the District's fiscal health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, and changes in the District's property tax base, over time, net assets serve as a useful indicator of a governmental entities financial position.

	<b>2016</b>		<b>2015</b>	
Current and other assets	\$ 3,104,738	\$	2,959,923	4.9%
Capital assets	\$ 8,994,316	\$	9,219,174	-2.4%
<b>Total Assets</b>	<b>\$ 12,099,054</b>	<b>\$</b>	<b>12,179,097</b>	<b>-0.7%</b>
Pension contributions	\$ 761,103	\$	783,200	-2.8%
<b>Deferred Outflows</b>	<b>\$ 761,103</b>	<b>\$</b>	<b>783,200</b>	<b>-2.8%</b>
Current liabilities	\$ 113,998	\$	69,469	64.1%
Long-term liabilities	\$ 9,718,764	\$	9,166,775	6.0%
<b>Total Liabilities</b>	<b>\$ 9,832,762</b>	<b>\$</b>	<b>9,236,244</b>	<b>6.5%</b>
Pension adjustment	\$ 711,248	\$	1,307,652	-45.6%
<b>Deferred Outflows</b>	<b>\$ 711,248</b>	<b>\$</b>	<b>1,307,652</b>	<b>-45.6%</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 8,950,342	\$	9,169,616	-2.4%
Restricted	\$ 1,890,138	\$	1,861,444	0.0%
Unrestricted	\$ (8,524,333)	\$	(8,612,659)	-1.0%
<b>Total Net Assets</b>	<b>\$ 2,316,147</b>	<b>\$</b>	<b>2,418,401</b>	<b>-4.2%</b>

The District's net assets reflect its investment in capital assets (e.g. land, land improvements, buildings and improvements, machinery and equipment). The total net assets decreased significantly because of the required GASB 45 reporting for the Other Post-Employment Benefits, and GASB 68 for TRS & PERS pension plan reporting. The district is not required to budget for these liability amounts.

	<b>Governmental Activities FY 2016</b>	<b>Governmental Activities FY 2015</b>	<b>Total Percentage Change</b>
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$ 184,024	\$ 177,575	3.6%
Operating Grants & Contributions	\$ 5,416,412	\$ 5,764,125	-6.0%
General Revenues:			
District Property Taxes	\$ 2,060,953	\$ 1,982,233	4.0%
State Equalization	\$ 3,739,224	\$ 3,665,441	2.0%
Interest Earnings	\$ 26,590	\$ 20,778	28.0%
Other Revenue	\$ 252,215	\$ 407,145	-38.1%
<b>Total Revenues</b>	<b>\$ 11,679,418</b>	<b>\$ 12,017,297</b>	<b>-2.8%</b>
<b>Program Expenses</b>			
Regular programs	\$ 6,084,078	\$ 6,087,353	-0.1%
Special programs	\$ 523,485	\$ 530,568	-1.3%
Vocational programs	\$ 212,024	\$ 215,341	-1.5%
Support services	\$ 2,010,214	\$ 2,129,964	-5.6%
Educational media	\$ 217,962	\$ 232,810	-6.4%
Transportation	\$ 659,601	\$ 599,235	10.1%
Operation and maintenance	\$ 1,045,515	\$ 999,502	4.6%
School food	\$ 377,173	\$ 396,928	-5.0%
Extracurricular	\$ 427,373	\$ 392,126	9.0%
Interest Expense-on Debt	\$ 1,772	\$ 240	
Unallocated depreciation	\$ 222,475	\$ 327,381	-32.0%
<b>Total expenses</b>	<b>\$ 11,781,672</b>	<b>\$ 11,911,448</b>	<b>-1.1%</b>
<b>Change in net assets</b>	<b>\$ (102,254)</b>	<b>\$ 105,849</b>	

## SOURCES OF REVENUE FOR FISCAL YEAR 2016



**Revenue & Expenses Continued-**

The district's revenues for the fiscal year ended June 30, 2016, decreased overall by 2.8%, while total expenses decreased by 1.1%. This was mainly because of the Grant funding for the High School Boiler Project. District taxpayers paid approximately \$2.0 million of the approximately \$12 million in revenues. Other State revenues included the remaining funding sources for the Boiler Project.

**Spending Levels Compared to Resource Levels**

	<b><u>FY 2016</u></b>	
<u>Expenditures Supported with General Revenues</u>	\$ 6,078,982	52%
From taxes and other sources for general school use		
<u>Expenditures Support with Program Revenues</u>	\$ 5,702,690	48%
<u>Total Expenditures Related to Governmental Activities</u>	\$ 11,781,672	100%

There were no over-all changes in the spending levels compared to resource levels from the prior year.

**Changes in Finances caused by Changes in Programs or Significant Events & Trends**

There were no new expenses or programs added that would account for significant increases in cost to the District. And there were no significant events or trends that impacted the financial statements for the year.

**Analysis of Financial Information**

**Capital Assets showing amount Net of Depreciation**

As of June 30, 2016, the District capital assets consisted of land, buildings, and machinery and equipment. There was a net increase of \$89,195 from the remaining Boiler project. Total depreciation expenses for the year were \$431,204.

The following schedule presents capital asset balances net of depreciation for the fiscal year.

	<b><u>Net Capital Assets</u></b>		
	<b><u>FY 2016</u></b>	<b><u>FY 2015</u></b>	<b><u>Change</u></b>
Land	\$ 345,601	\$ 345,601	0.0%
Land improvements	\$ 379,577	\$ 416,042	-8.8%
Buildings and improvements	\$ 7,686,900	\$ 7,967,022	-3.5%
Machinery and equipment	\$ 548,072	\$ 490,509	11.7%
Construction in Progress	\$ 34,166	\$ -	
Total	\$ 8,994,316	\$ 9,219,174	-2.4%

**Debt Administration**

Years ago, the GASB 45 Reporting Requirements went into effect for the “Other Post Employee Benefits (OPEB)”. Our District offers health benefits to the retirees; the retirees pay their full premiums. However, their age is factored in because the premium paid by the retiree is often lower than what they would be if the retiree were insured separately. Therefore, a “blended” rate is charged to both the retiree and current employee without any cost differentiation for age adjusted premiums. The use of a blended rate results in an “implicit rate subsidy”. This means that retiree healthcare is being subsidized by the employer. The thought is that, if there were no retirees participating in the plan the premiums for the current employees would be less. Recently GASB 68 went into effect for the State’s TRS & PRS plan deficiencies. Even though we must show these amounts as debt, the District is not required to budget for them.

The District's outstanding long-term debt:

	<b><u>Long-Term Debt</u></b>		
	<b><u>FY 2016</u></b>	<b><u>FY 2015</u></b>	<b><u>Change</u></b>
Contracts for Deed/Loan	\$ 43,974	\$ 49,558	-11.3%
Compensated Absences Payable	\$ 276,466	\$ 139,325	Not Budgeted For
OPEB Reporting	\$ 1,294,798	\$ 1,229,197	Not Budgeted For
GASB 68 Reporting - TRS	\$ 7,124,573	\$ 6,867,987	Not Budgeted For
GASB 68 Reporting - PERS	\$ 986,675	\$ 886,708	Not Budgeted For
Total	\$ 9,726,486	\$ 9,172,775	6.0%

**The District's Future**

The following will be major factors in the future of the District:

- District enrollment for 2016/2017 increased across the district. We anticipate that our enrollment will increase slightly in the future as projected by the state census office. Although we will experience an increase in ANB entitlement funds, the majority of those funds will be displaced by current needs that include increased staffing to address the increase in enrollment; compensation increase long overdue; and maintenance needs.
- The state legislature has met and approved a meager 0.5% increase for 2017/2018. For 2018/2019, we will receive a 1.78% increase from SB 191. With a positive economic climate and a positive funding pattern in the past three legislative session, we anticipate small to moderate funding increases contingent on a steady uptick in enrollment.
- The District's dependence upon local taxes and state aid keeps the district working to creatively maintain programs. With steady increases in enrollment, we are now at capacity in our elementary building and close to enrollment capacity in our middle and high schools. Our ability to maintain the financial benefits of steady enrollment will increasingly be limited by our facility capacity. In May of 2016, an operating levy was offered for public vote and failed. The amount of this operating levy request was \$440,000. The district will be looking to increase our financial capacity through continued increased enrollment and a likely operating levy request in the near future.
- The Facilities Master Plan has been under review and an initial report was presented to the board. This report outlined several needs that include two major facility deficiencies: Performing and Visual Arts and a full facility at the primary. Based upon the projected slow growth, the needs for these two facilities is apparent and will only increase. There is likely to be a building reserve in the fall of 2017 or spring of 2018. The management of the Ravalli Electric Co-op recently notified their members of their intent to move off the current property in 3-5 yrs. This property is contiguous to our main campus. With this property officially for sale, Corvallis School District will be pursuing this land acquisition with a likely request for funding the purchase to our voters occurring the fall of 2017 or spring of 2018.

**Contact for Additional Information**

If you have questions about this report or need additional information, contact the Business Manager/Clerk at the Corvallis School District, 280 1<sup>st</sup> Street, Corvallis, MT 59828, 406-961-4211.