

Corvallis School District #1
Management Discussion and Analysis (MD&A)
For the Year Ended June 30, 2017

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, 2017. 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 overall 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 21st Century After-School program, along with a new donated soccer concessions stand and crows nest.

Quality Education for All. 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, 2017.

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, 2017, the District transferred Transportation Funds in the amount of \$64,000 to the Flex Fund, for the operations of the school for the 2017-2018 school year.

All Budgeted Funds Interest revenue: Interest received was approximately \$8,500 more than last year. The total amount earned was \$35,090 compared to \$26,590 for the prior year.

Total Tax Receivables

At year-end our Tax Receivables due from tax-payers was \$128,444 compared to \$102,894 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.

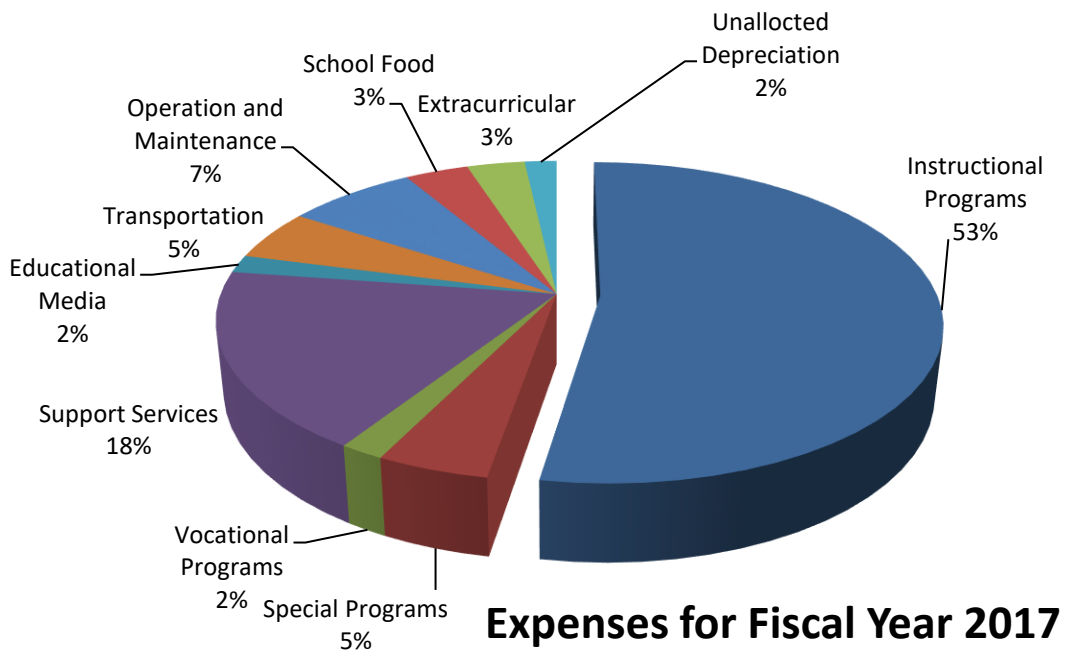
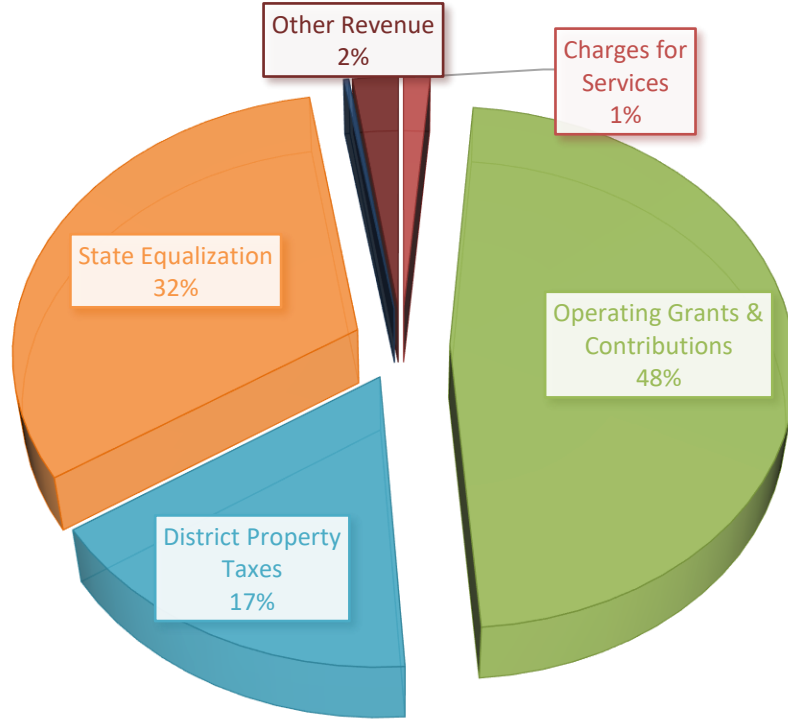
	2017		2016	
Current and other assets	\$ 3,279,933	\$	3,104,738	5.6%
Capital assets	\$ 8,915,960	\$	8,994,316	-0.9%
Total Assets	\$ 12,195,893	\$	12,099,054	0.8%
Pension contributions	\$ 1,402,582	\$	761,103	84.3%
Deferred Outflows	\$ 1,402,582	\$	761,103	84.3%
Current liabilities	\$ 61,878	\$	113,998	-45.7%
Long-term liabilities	\$ 10,747,518	\$	9,718,764	10.6%
Total Liabilities	\$ 10,809,396	\$	9,832,762	9.9%
Pension adjustment	\$ 270,165	\$	711,248	-62.0%
Deferred Outflows	\$ 270,165	\$	711,248	-62.0%
Net Assets				
Invested in capital assets, net of related debt	\$ 8,915,960	\$	8,950,342	-0.4%
Restricted	\$ 1,915,633	\$	1,890,138	0.0%
Unrestricted	\$ (8,312,679)	\$	(8,524,333)	-2.5%
Total Net Assets	\$ 2,518,914	\$	2,316,147	8.8%

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 increased due to purchasing two activity buses, building a lunchroom pavilion gazebo, purchasing a plasma table (4X8) for the VOED shop, and the Sangster Eagle Project Donation for the scorer concessions stand and crows nest. Other changes 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.

Changes in the District's Revenue & Expenses

	Governmental Activities FY 2017	Governmental Activities FY 2016	Total Percentage Change
Revenues			
Program Revenues:			
Charges for Services	\$ 171,812	\$ 184,024	-6.6%
Operating Grants & Contributions	\$ 5,998,973	\$ 5,416,412	10.8%
General Revenues:			
District Property Taxes	\$ 2,126,896	\$ 2,060,953	3.2%
State Equalization	\$ 3,954,639	\$ 3,739,224	5.8%
Interest Earnings	\$ 35,090	\$ 26,590	32.0%
Other Revenue	\$ 295,525	\$ 252,215	17.2%
Loss on Disposal of Assets	\$ (34,166)		100.0%
Total Revenues	\$ 12,548,769	\$ 11,679,418	7.4%
Program Expenses			
Regular programs	\$ 6,512,980	\$ 6,084,078	7.0%
Special programs	\$ 566,120	\$ 523,485	8.1%
Vocational programs	\$ 224,078	\$ 212,024	5.7%
Support services	\$ 2,240,158	\$ 2,010,214	11.4%
Educational media	\$ 222,093	\$ 217,962	1.9%
Transportation	\$ 630,087	\$ 659,601	-4.5%
Operation and maintenance	\$ 892,621	\$ 1,045,515	-14.6%
School food	\$ 437,238	\$ 377,173	15.9%
Extracurricular	\$ 397,699	\$ 427,373	-6.9%
Interest Expense-on Debt	\$ 3,030	\$ 1,772	
Unallocated depreciation	\$ 219,897	\$ 222,475	-1.2%
Total expenses	\$ 12,346,001	\$ 11,781,672	4.8%
Change in net position	\$ 202,768	\$ (102,254)	

SOURCES OF REVENUE FOR FISCAL YEAR 2017



Revenue & Expenses Continued-

The district's revenues for the fiscal year ended June 30, 2017, increased overall by 7.4%, while total expenses increased by 4.8%. This was mainly because of the additional funding for the increased student enrollment, which also caused to hire additional staff. District taxpayers paid approximately \$2.1 million of the approximately \$12.5 million in revenues, which is the same percentage as last year.

Spending Levels Compared to Resource Levels

	<u>FY 2017</u>		<u>FY 2016</u>	
<u>Expenditures Supported with General Revenues</u>	\$ 6,377,984	52%	\$ 6,078,982	52%
From taxes and other sources for general school use				
<u>Expenditures Support with Program Revenues</u>	\$ 5,986,017	48%	\$ 5,702,690	48%
<u>Total Expenditures Related to Governmental Activities</u>	\$ 12,346,001	100%	\$ 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

As of June 30, 2018, the District capital assets consisted of land, buildings, and machinery and equipment. There was a net increase of \$374,322 which is discussed in the above The District as a Whole Section. Total depreciation expenses for the year were \$418,510.

Net Capital Assets

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Land	\$ 345,601	\$ 345,601	0.0%
Land improvements	\$ 668,942	\$ 657,716	1.7%
Buildings and improvements	\$ 12,460,796	\$ 12,426,744	0.3%
Machinery and equipment	\$ 2,217,188	\$ 1,888,145	17.4%
Construction in Progress	\$ -	\$ 34,166	
Total	<u>\$ 15,692,527</u>	<u>\$ 15,352,372</u>	2.2%

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.

District Outstanding Long Term Debt

	<u>Long-Term Debt</u>		
	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Contracts for Deed/Loan	\$ -	\$ 43,974	-100.0%
Compensated Absences Payable	\$ 258,950	\$ 276,466	Not Budgeted For
OPEB Reporting	\$ 1,361,443	\$ 1,294,798	Not Budgeted For
GASB 68 Reporting - TRS	\$ 7,917,974	\$ 7,142,573	Not Budgeted For
GASB 68 Reporting - PERS	\$ 1,234,650	\$ 986,675	Not Budgeted For
Total	<u>\$ 10,773,017</u>	<u>\$ 9,744,486</u>	10.6%

The District paid off the real property located next to the primary school, on Willow Creek Rd. The remaining debt listed is for the State & GASB reporting requirements, which are not budgeted for by school districts.

The District's Future

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

- District enrollment for 2017/2018 increased across the district. We anticipate that our enrollment will increase in the future. 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 increases that are long overdue; and maintenance needs.
- 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 November of 2017, a Building Reserve Levy was passed to purchase the 21 acres of land and the existing buildings from the Ravalli Electric Cooperative. The purchase of this land will consolidate (remove) some of our current Administration buildings into the REC admin building freeing up land on our current campus. In addition, there is 8 acres of undeveloped land on the REC that we are planning a future construction project to address the increase enrollment/space crunch in our buildings. An additional facility likely to receive future attention will be the construction of a performing arts building. Building a performing arts building will dramatically free up scheduling space for our high school and middle school students both during and after school hours.

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 1st Street, Corvallis, MT 59828, 406-961-4211.

