

# **Carsonville-Port Sanilac Schools**

## Management's Discussion and Analysis

### For Fiscal Year Ended June 30, 2009

Carsonville-Port Sanilac School District, a K-12 school district located in Sanilac County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to provide, in layman's term, a look at the district's performance and past and current position.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. This is our sixth year of implementation so certain comparative information between the current year and the prior year is required to be presented in the MD&A. Our district has met those requirements to our knowledge.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

#### **Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's “Accounting Manual.” In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

#### **Government-wide Financial Statements**

The government-wide financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

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**Summary of Net Assets**

The following schedule summarizes the net assets at fiscal year ended June 30, 2009:

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Current assets	\$ 2,136,587	\$ 2,014,961
Deferred costs	49,281	52,410
Capital assets	13,466,609	13,351,492
Less: accumulated depreciation	<u>(6,588,287)</u>	<u>(6,250,957)</u>
Total assets	<u>\$ 9,064,190</u>	<u>\$ 9,167,906</u>
<b>Liabilities</b>		
Current liabilities	\$ 935,271	\$ 795,978
Long-term liabilities	<u>6,517,556</u>	<u>6,783,510</u>
Total liabilities	<u>\$ 7,452,827</u>	<u>\$ 7,579,488</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 92,578	\$ 45,205
Restricted for debt service	652,278	557,716
Unrestricted	<u>866,507</u>	<u>985,497</u>
Total net assets	<u>1,611,363</u>	<u>1,588,418</u>
Total liabilities and net assets	<u>\$ 9,064,190</u>	<u>\$ 9,167,906</u>

**Analysis of Financial Position**

During the fiscal year ended June 30, 2009, the District's net assets increased by \$22,945. A few of the more significant factors affecting net assets during the year are discussed below.

**1. Depreciation Expense**

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

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Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2009, \$369,535 was recorded for depreciation expense.

**2. Capital Outlay Acquisitions**

Capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$222,213 for the fiscal year ended June 30, 2009.

**Results of Operations**

For the fiscal year ended June 30, 2009, the results of operations, on a District-wide basis, were:

<b>General Revenues</b>	<b>2009</b>	<b>% of Total</b>	<b>2008</b>	<b>% of Total</b>
Property taxes	\$ 1,516,371	24.73%	\$ 1,576,515	
				26.24%
Investment earnings	9,238	.15%	10,256	.17%
State sources	3,595,559	58.65%	3,792,531	63.13%
Federal ARRA	232,366	3.79%	-	0.00%
Other	<u>182,985</u>	<u>2.98%</u>	<u>140,061</u>	<u>2.33%</u>
<b>Total general revenues</b>	<b><u>\$ 5,535,519</u></b>	<b><u>90.30%</u></b>	<b><u>\$ 5,519,363</u></b>	<b><u>91.87%</u></b>
<b>Program Revenues</b>				
Charges for services	\$ 100,718	1.64%	\$ 109,219	1.82%
Operating grants	<u>494,356</u>	<u>8.06%</u>	<u>379,044</u>	<u>6.31%</u>
<b>Total program revenues</b>	<b><u>595,074</u></b>	<b><u>9.70%</u></b>	<b>488,263</b>	<b><u>8.12%</u></b>
<b>Total revenues</b>	<b><u>\$ 6,131,593</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 6,007,626</u></b>	<b><u>100.00%</u></b>
<b>Expenses</b>				
Instruction	\$ 3,314,231	54.25%	\$ 3,123,517	53.16%
Support services	1,628,305	26.66%	1,612,748	27.45%
Transfer to other districts	4,930	.08%	20,063	.34%
Food services	291,278	4.77%	235,993	4.02%
Athletics	183,415	3.00%	178,162	3.03%
Interest on long-term debt	294,134	4.82%	376,216	5.25%
Unallocated depreciation	369,535	6.05%	376,123	6.40%
Amortization	20,250	.33%	20,250	.34%
Other	<u>2,570</u>	<u>.04%</u>	<u>460</u>	<u>.01%</u>
<b>Total expenses</b>	<b><u>\$ 6,108,648</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 5,875,532</u></b>	<b><u>100.00%</u></b>
<b>Increase in net assets</b>	<b><u>\$ 22,945</u></b>		<b><u>\$ 132,094</u></b>	

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**Analysis of Significant Revenues and Expenses**

Significant revenues and expenditures are discussed in the segments below:

**1. Property Taxes**

The District 18 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2008-2009 fiscal year, the district levied \$921,225 non-homestead property taxes. This represented an increase of 2.41% from the prior year. The amount of unpaid property taxes at June 30, 2009, less an estimate for those deemed to be un-collectible, was \$25,599.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from prior year
2008- 2009	\$ 921,225	2.41%
2007- 2008	\$ 899,523	8.32%
2006 - 2007	\$ 830,410	1.60%
2005 - 2006	\$ 817,203	6.77%
2004 - 2005	\$ 765,384	3.40%
2003 – 2004	\$ 740,285	10.80%
2002 – 2003	\$ 668,581	1.60%
2001 – 2002	\$ 658,606	9.20%
2000 – 2001	\$ 603,342	6.70%
1999 – 2000	\$ 565,480	4.70%

**2. State Sources**

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the September 2008 count and 25% of the February 2008 count. For the 2008 – 2009 fiscal year, the District's foundation allowance was \$ 7,316 per student FTE.

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**3. Student Enrollment**

The following schedule compares actual to budgeted FTE for the blended student enrollment for the past five fiscal years:

Variance Favorable	Actual	Budgeted		(Unfavorable)
	Student FTE	Blended	Blended	
2008 - 2009	624.88		624.82	0.06
2007 - 2008	624.73		624.73	0.00
2006 - 2007	628.75		628.75	0.00
2005 - 2006	632.13		632.00	0.13
2004 - 2005	632.00	632.00		0.00
2003 - 2004	623.00		623.00	0.00
2002 - 2003	630.50		615.00	15.50
2001 - 2002	644.00		646.00	(2.00)
2000 - 2001	665.96		646.20	19.76

**4. Operating Grants**

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2009, federal, state and other grants accounted for \$494,356. This represents an increase of \$115,312 over the total grant sources received for the 2008 - 2009 fiscal year.

**5. County Special Education Allocation**

For the fiscal year ended June 30, 2009, the District received an allocation from the Sanilac Intermediate School District in the amount of \$58,029 to assist with the education of students with special needs.

**6. Interest Earnings**

The District received interest on its investments in the amount of \$9,238 for the fiscal year ended June 30, 2009. Interest revenues decreased from the prior fiscal year by \$ 1,018.

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**7. Comparative Expenditures**

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund balances is shown below.

Expenditures	2008 – 2009 Fiscal Year	2007 – 2008 Fiscal Year	Increase (Decrease)
Instruction	\$ 3,334,438	\$ 3,129,455	\$ 204,983
Supporting services	1,636,965	1,615,293	21,672
Food service activities	291,278	235,993	55,285
Athletic activities	183,415	178,162	5,253
Debt Service	607,993	692,553	(84,560)
Capital Outlay	128,935	-	128,935
Other Transfers	<u>4,930</u>	<u>-</u>	<u>4,930</u>
 Total expenditures	 <u>\$ 6,187,954</u>	 <u>\$ 5,851,456</u>	 <u>\$ 336,498</u>

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**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1<sup>st</sup>. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30<sup>th</sup>.

For the 2008 – 2009 fiscal year, the district amended the general fund budget three times with the Board adopting the changes in June 2009. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget- positive (negative)	% Variance
Total revenues	<u>\$ 5,033,828</u>	<u>\$ 5,190,447</u>	<u>\$ 5,215,081</u>	<u>\$ 24,634</u>	0.47%
Expenditures:					
Instruction	2,986,040	3,323,729	3,334,438	(10,709)	(0.32)%
Supporting services	1,810,269	1,641,542	1,636,965	4,577	0.28%
Capital outlay	-	103,650	128,935	25,285	20.39%
Other Transfers	<u>3,600</u>	<u>4,970</u>	<u>4,930</u>	<u>40</u>	0.08%
Total expenditures	4,799,909	5,073,891	5,105,268	19,193	20.43%
Other financing sources (uses)	<u>(191,942)</u>	<u>(194,942)</u>	<u>(163,498)</u>	<u>6,144</u>	3.15%
Excess of revenue over Expenditures & other uses	<u>\$ (41,977)</u>	(78,386)	(53,685)	<u>\$ 24,701</u>	
46.01% _____					
Fund Balance – Beginning of year		<u>945,343</u>	<u>945,343</u>		
Fund Balance – End of year		<u>\$ 866,957</u>	<u>\$ 891,658</u>		

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#### **Capital Asset and Debt Administration**

##### **Capital Assets**

By the end of the 2008 – 2009 fiscal year, the district had invested \$13,466,609 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. Depreciated expense for the year amounted to \$369,535 bringing the accumulation to \$6,588,287 as of June 30, 2009.

##### **Long- term Debt**

At June 30, 2009, the District had \$7,055,402, in bonded debt outstanding. This represents a reduction of \$286,706 over the amount outstanding at the closed of the prior fiscal year as no new debt was issued in the 2008– 2009 fiscal year.

##### **Factors Bearing on the District's Future**

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future.

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2009 – 2010 fiscal year.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, while the State has managed to keep the growth in the rate districts fund the retirement system over the past few years, the increase in the number of retirees projected to occur over the next few years may result in higher annual increases.
- The contracts with the Carsonville-Port Sanilac Schools Education Association, the union that represents the teaching staff, International Union of Operating Engineers, the union that represents the custodial and support staff, have all been settled and expire June 30, 2010. Contracts with all administrators and the bus driver association are all settled with a 2010 expiration date as well.
- The state of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Education Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

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#### **Next Years Proposed Budget 09/10**

For this Proposed Budget hearing we wish to comply with Section 16 of the Uniform Budgeting and Accounting Act and state that our proposed property tax millage rate to be levied this fall is 18 mills. This will generate \$919,623 in local property taxes. This is based on the Non-Homestead Taxable Value of \$51,090,191.

This budget will change because of factors that were not known before the budget had to be adopted. There will once again be a shift of funds from State sources into Federal sources caused by the Federal ARRA stabilization funding. The district will also have increased Federal funding because of becoming a Title I school-wide district and Title I ARRA stabilization funds.

#### **Revenue:**

The local revenue was adjusted to reflect student enrollment figures from the February 2009 and projected fall 2009 count.

#### **Expenses:**

The pay scales have moved the employees to the appropriate wage steps for the upcoming year and adjusted for contract settlements. Contracts have been settled with a .005% raise each semester.

The healthcare benefits have increased for MESSA health insurances for the teachers and the Health Savings Accounts for the other employee groups. Many support employees of the district have switched to another insurance plan; Health Savings Account. This has saved both the district and the employees, money in health care expenses.

The district continues to operate with a half-time Superintendent. This saves the district approximately \$121,000 per year.

The district continues to be creative with staffing and operation of the school district. We now operate with a half time Principal as well.

We have increased operation and maintenance budgets for increased electric and gas costs.

The district leases its busses, which allows us to have a newer bus fleet and saves on maintenance costs.

#### **Contracting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact:

Harold Titus, Superintendent  
Margie Christenbery, Business Manager  
Carsonville-Port Sanilac Schools  
100 N. Goetze Rd.  
Carsonville, MI 48419  
(810) 657-9393