

## **School District of the City of Bay City**

### **Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2005**

The Bay City Public School District, a K-12 school District located in portions of Bay, Saginaw, and Midland Counties, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. One of the requirements under GASB 34 is a written interpretation of the financial statements included in the audit report or for Bay City Public Schools, what is called the "Comprehensive Annual Financial Report" or CAFR. This written interpretation is called "Management's Discussion and Analysis" or MD&A. For Bay City Schools, the MD&A is intended to be the Bay City Public School Administration's discussion and analysis of the financial statements and information for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to provide assistance and insight regarding the financial condition of the School District to Board of Education members, taxpayers, investors, state and federal agencies, and other interested parties.

GASB 34 requires two different types of financial statements within the CAFR: District-Wide Financial Statements and Fund Financial Statements. Fund Financial Statements are essentially the statements used by governmental entities prior to GASB 34. The District-Wide Financial Statements are a requirement of GASB 34. The primary purpose of this requirement is to assist statement users in understanding the overall health and position of the governmental entity and its components by including long-term assets and long-term liabilities into the appropriate fund or program that uses or creates those assets or liabilities.

#### **Fund Financial Statements:**

The fund level statements are reported on a modified accrual basis meaning that revenues attributable to the audit year are only recorded if measurable and receivable within 60 days of the end of the fiscal year being June 30. Liabilities are recorded to the extent they are measurable and normally expected to be paid with current financial resources. General fixed assets and general long-term debt are no longer reported in fund financial statements.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's accounting manual entitled, "Bulletin 1022." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, Capital Projects, and the School Service Funds. The School Service Fund is comprised of the following programs: Food Service, Athletics, Forest Day Care, Community Education, and Bay3-TV.

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In the Fund Financial Statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is 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. Future year's debt obligations are not recorded.

#### **District-Wide Financial Statements:**

As discussed earlier, the District-Wide Financial Statements are full accrual basis statements. They report all of the District's assets and liabilities, both short-term and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Assets of the District-Wide Financial Statements.

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#### Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2005 and June 30, 2004:

#### Net Assets Summary

<b>Assets:</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>
Current Assets	\$19,393,012	\$20,606,168
Capital Assets	52,991,370	52,918,235
Less: Accumulated Depreciation	(26,330,146)	(25,010,729)
Capital Assets Net Book Value	<u>26,661,224</u>	<u>27,907,506</u>
<b>Total Assets</b>	<b><u>\$46,054,236</u></b>	<b><u>\$48,513,674</u></b>
<b>Liabilities:</b>		
Current Liabilities	\$20,501,957	\$21,266,113
Long-Term Liabilities	20,992,181	19,589,127
<b>Total Liabilities</b>	<b><u>\$41,494,138</u></b>	<b><u>\$40,855,240</u></b>
<b>Net Assets:</b>		
Invested in Capital Assets Net of Related Debt	\$10,645,701	\$14,399,056
Restricted for Debt Service	572,823	486,589
Unrestricted (deficit)	(6,658,426)	(7,227,181)
<b>Total Net Assets</b>	<b><u>4,560,098</u></b>	<b><u>7,658,434</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$46,054,236</u></b>	<b><u>\$48,513,674</u></b>

#### Analysis of Financial Position:

During the fiscal year ended June 30, 2005, the District's net assets decreased by \$3,098,336 from June 30, 2004. "Total Net Assets" are \$4,560,098. This represents 9.90% of total District-Wide assets and 6.06% of the total District-Wide expense budget. Included in total net assets is \$10,645,701, which is the difference between the values

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of capital assets such as land, buildings, buses, and equipment and long-term bonds, used to pay for those assets. This difference is one of the major changes between what is shown as Net Assets under the District-Wide Financial Statements and Fund Balance reflected in the Fund Financial Statements. The \$572,823 shown as "Restricted For Debt Service" at June 30, 2005, represents cash and receivables from property tax collections for the 1992 Bond Issue and is restricted for that use only. The "Unrestricted Deficit" is \$6,658,426 which is the difference between all assets other than capital assets (i.e. cash, receivables, and inventory) and all other liabilities other than bonds (i.e. accounts payable, salaries payable, state aid notes, and compensated absences). The major reason this unrestricted asset amount is a deficit is that the compensated absences (i.e. retirement incentives and unused sick days) are valued at \$9,438,460 (see footnote 6, Long Term Debt). For comparison, the District's "Capital Assets Net of Related Debt" decreased \$3,753,325 for the year ended June 30, 2005 because of payments on bond debts and the issuance of new debt. The "Net Assets Restricted for Debt Service" increased because the increase in property tax values resulted in the increased property tax revenues above the amount of debt payments for the year.

On the governmental fund statements, the general fund balance of \$1,341,392 represents 1.71% of the total general fund expenditure budget of \$78,597,768. Within this amount, \$183,991 is designated for specific purposes. Undesignated fund balance for 2004-2005 was \$1,157,401 and 1.47% of the general fund expenditure budget.

The significant factors affecting net assets during the year are discussed below:

#### **State Aid:**

In February 2003 and again in December 2004, the State of Michigan reduced State Aid that had previously been approved by the legislature. The foundation grant amount provided for each student was reduced from \$6,700 to \$6,621 for fiscal year June 2003 and reduced from \$6,700 to \$6,616 for fiscal year June 2004. This change resulted in a loss of revenue to Bay City Public Schools of \$777,834 for 2002-2003 and another \$824,880 in 2003-2004. In 2004-05, the State maintained the \$6,700 foundation grant for the entire school year.

#### **Depreciation Expense:**

GASB 34 requires school districts to maintain a record of annual depreciation expense and accumulated depreciation. For fiscal year ended June 30, 2005, accumulated depreciation was \$26,330,146 as compared to \$25,010,729 for the year ended June 30, 2004.

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The District's capital outlay plan sets the time frame that depreciation expense is calculated, or put another way, the useful life of the asset. These useful lives are as follows:

Land Improvements	=	15 Years
Buildings	=	50 Years
Machinery and Equipment	=	4-15 Years
Vehicles and Buses	=	8 Years

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. The District has opted to depreciate buildings until 20% of the original cost remains. This 20% remaining or residual value will be maintained in the asset values and not be adjusted further unless additional capital expenditures are made or the building is sold or otherwise obsolete. In accordance with accounting principles generally accepted in the United States (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

#### **Capital Outlay Acquisitions:**

Actual capital outlay acquisitions for fiscal year ended June 30, 2005 were \$5,436,493 as compared to the fiscal year ended June 30, 2004 acquisitions of \$542,809. The largest capital outlay of the 2004-2005 school year was related to the energy system improvements financed with a school improvement bond. The largest purchase, of the 2003-2004, school year was the refreshment of computer technology through a capital lease rollover.

#### **Capital Asset Deletions:**

There were no significant deletions during 2004-2005. During 2003-2004 the District approved the sale of the Dolsen School Building for \$91,000.

#### **Bonds Payable:**

As discussed above, the District implemented an energy system improvement plan and issued \$5,980,000 in school improvement bonds.

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#### Results of Operations:

For the fiscal year ended June 30, 2005, the District-Wide results of operations were:

	<b>Amount</b>	<b>Percent of Total</b>
<b>General Revenue:</b>		
Property Taxes Levied for General Operations	\$ 9,372,558	13.22%
State of Michigan Aid, Unrestricted	56,575,983	79.81%
Interest and Investment Earnings	158,669	0.23%
Property Taxes Levied for Debt Services	1,774,598	2.51%
Other and Local Revenue	2,999,277	4.23%
<b>Total General Revenue</b>	<b>\$ 70,881,085</b>	<b>100.00%</b>
<b>Program Revenue:</b>		
Charges for Service – Local	2,578,103	23.45%
Operating Grants – Federal and State	8,417,995	76.55%
<b>Total Program Revenue</b>	<b>\$ 10,996,098</b>	<b>100.00%</b>
<b>Expenses:</b>		
Instructional Services	\$ 45,423,093	53.45%
Support Services	33,270,736	39.15%
Food Services	3,214,518	3.78%
Athletics	1,118,564	1.32%
Community Services	433,430	0.52%
Forest Day Care	485,532	0.57%
Community Education	52,233	0.06%
Bay 3 Televison	86,297	0.10%
Net Operating Transfers to Other Funds	(30,000)	(0.04)%
Interest on Long-Term Debt	921,116	1.09%
<b>Total Expenses</b>	<b>\$ 84,975,519</b>	<b>100.00%</b>
<b>Decrease in Net Assets</b>	<b>\$ 3,098,336</b>	

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#### **General Revenue:**

#### **Property Taxes Levied for General Operations (General Fund Property Taxes):**

The District levies 18 mils of property for general fund operations on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property levy for the 2004-2005 fiscal year was \$9,418,407. The non-homestead tax levy increased 5.06% from the prior year. The amount of unpaid personal property taxes from the 2004 levy was \$130,981 at June 30, 2005 or approximately 1.39% of the total levy. The average increase in the property tax levy over the last five years is 4.76% due to a combination of assessment increases and property additions.

The following summarizes the District's non-homestead levy the past five years:

<b>Fiscal Year</b>	<b>Non-Homestead Tax Levy</b>	<b>Percent Increase from Prior Year</b>
2004-2005	\$ 9,418,407	5.06%
2003-2004	8,964,385	1.34%
2002-2003	8,846,014	9.87%
2001-2002	8,050,863	6.01%
2000-2001	7,594,177	1.50%

#### **State of Michigan Aid - Unrestricted:**

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment – Blended at 75% of current year fall count and 25% of prior year winter count
- c. The District's non-homestead levy

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#### **Per Student, Foundation Allowance:**

Annually, the State of Michigan sets the per student foundation allowance. The Bay City Public School foundation allowance was \$6,700 per student for the 2004-2005 school year, \$6,616 per student for the 2003-2004 school year, and \$6,621 per student for the 2002-2003 school year. The District started all three years with \$6,700; however, this amount was decreased in 2002-2003 and 2003-2004 because of State budget difficulties. The \$6,700 in 2004-2005 represents an increase of \$84 from the prior year or 1.26% more than Bay City's 2003-2004 foundation allowance per student of \$6,616 per student.

#### **Student Enrollment:**

The District's student enrollment for the fall count of 2004-2005 was 9,849 students. The District's enrollment had been declining; however, there was an increase in 2005 and the decline in 2004 was significantly less than the prior three years. The following summarizes fall student enrollments in the past five years:

<b>Fiscal Year</b>	<b>Student FTE</b>	<b>FTE Change from Prior Year</b>
2004-2005	9,849	29
2003-2004	9,820	(13)
2002-2003	9,833	(50)
2001-2002	9,883	(135)
2000-2001	10,018	(260)

The preliminary indication for 2005-2006 is that enrollment will decline as compared to 2004-2005. The first official 2005-2006 count will be September 21, 2005.

#### **Interest and Investment Earnings:**

During the year, the District earned \$158,669 from interest on invested cash in all funds compared to \$104,223 for the year ended June 30, 2004. The increase is due to an increase in interest rates.

#### **Property Taxes Levied for Debt Service:**

The District's debt fund levy, which is used to pay the principal and interest on the 1992 bond obligation, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the District collects IFT (Industrial Facilities Taxes) in lieu of taxes, which are essentially taxed at 50% of the regular tax rate.

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For 2004-2005, the District's debt millage levy was 1.1 mills, which generated a levy of \$1,776,969. At June 30, 2005, \$8,311 of the 2004 personal debt levy remains unpaid to the District. The unpaid taxes represent 0.47% of the total levy.

#### **Other and Local Revenue:**

Of the \$2,999,277 of other general revenues, \$2,197,110 is revenue from a countywide special education millage levied by the intermediate school district. The Bay City Schools represent approximately one-half of the students and taxable valuation base within the entire intermediate school district boundary. The millage is first used for special education costs for center programs operated by the intermediate school district for the most severely handicapped children. Once those costs are covered, the remaining millage is distributed among the member local school districts based on proportion of total district student count. The remaining other funding relates to various local grants the District has been awarded.

#### **Program Revenue:**

##### **Charges for Services – Local:**

The single largest charge for services is food and milk sales in the food service program. Revenue from students and adult sales decreased \$38,728 from \$1,308,697 in 2003-2004 to \$1,269,969 in 2004-2005. School lunch prices increased 5 cents during 2004-2005 to \$1.65 for elementary students and \$1.75 for middle and high school students. Student participation for lunch and breakfast programs decreased from 1,114,589 meals served in 2003-2004 to 1,088,487 meals served in 2004-2005 or a decrease of 26,102 meals. Other charges for services include transportation fees charged for student field trips, printing fees for services performed by the District's print shop, tuition for the classes through the community education program, athletic gate receipts, GM Power-train adult education, and day care program fees.

##### **Operating Grants – Federal and State:**

These grants consist of federal grants such as Title I and Title II as well as special state grants known as categorical funding. These categorical grants allow schools to provide programs for students who qualify as at-risk, special education, and gifted and talented as well as funding to provide smaller elementary class sizes, driver education programs, bilingual education, and technology initiatives. The total categorical grant funding in 2004-2005 is \$8,262,886 consisting of \$2,614,824 in state categorical grants and \$5,648,062 in federal grants. The largest state categorical grant is At-Risk at \$1,795,843. The largest federal grants are Title I at \$2,683,193, Federal Hot Lunch Program at \$1,543,698, and Title II at \$725,291.

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#### **Expenses:**

Expenses on the District-Wide statements are \$84,975,519 for the general fund, school service fund, debt fund and capital projects combined. There are differences between expenses reported on the District-Wide statements and expenditures as reported on the governmental statements. On the governmental statements, general fund expenditures and other financing uses are \$77,518,047, school service expenditures are \$4,810,322, debt service expenditures are \$3,672,715, and capital projects expenditures are \$4,629,492 for a total of \$90,630,576. These same types of differences exist with revenues as reported on District-Wide statements versus governmental statements.

Two reconciliation worksheets appear towards the front of the audited financial statements. Respectively, the forms are titled "Reconciliation of the Governmental Funds Balance Sheet to the District-Wide Statement of Net Assets" and "Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities." These two worksheets, required under GASB 34, are designed to assist readers to identify the accounting transactions that require different treatment under each set of statements and thus create the differences discussed above.

The types of transactions creating the largest difference were mentioned at the beginning of this MD&A, namely the treatment of capital assets and long-term debt. While principal payments on long-term debt are considered an expenditure on governmental statements, they are not considered an expense on District-Wide statements but rather a reduction in a long-term liability. Bond and loan proceeds are considered other financing sources on governmental statements but are increases in long-term liabilities. A review of both reconciliation worksheets may assist readers with additional specific information.

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### Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2005

#### **GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES:**

##### **General Fund Expenditures and Operating Transfers Out - Budget Vs. Actual Five-Year History:**

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
2000-2001	76,161,105	78,370,187	75,592,111	(0.74%)	(3.54%)
2001-2002	77,015,145	78,819,405	75,289,730	(2.24%)	(4.47%)
2002-2003	77,352,873	80,878,859	78,509,351	1.49%	(2.92%)
2003-2004	77,764,312	77,331,585	76,265,229	(1.93%)	(1.38%)
2004-2005	77,743,175	78,597,768	77,518,047	(0.29%)	(1.37%)
<b>Five Year Average Over (Under) Budget</b>				<b>(0.74%)</b>	<b>(2.74%)</b>

##### **General Fund Revenue and Other Financing Sources - Budget Vs. Actual Five-Year History:**

Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
2000-2001	72,297,159	74,071,196	71,365,722	(1.28%)	(3.65%)
2001-2002	77,085,085	78,621,394	77,153,140	0.08%	(1.86%)
2002-2003	78,200,851	79,273,283	78,180,958	(0.03%)	(1.38%)
2003-2004	77,601,444	77,305,653	75,987,456	(2.08%)	(1.71%)
2004-2005	77,080,965	76,859,240	76,089,006	(1.28%)	(1.00%)
<b>Five Year Average Over (Under) Budget</b>				<b>(0.92%)</b>	<b>(1.92%)</b>

#### **Original Budget vs. Final Budget:**

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 July 1, the start of the fiscal year.

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Because of the timing of student counts in September and February of each year, the constant changes in grants, state aid, retirement costs, carryover funds, and staffing issues, Bay City Public Schools normally amends its budget in December of each school year. If circumstances warrant in some years, a second revision may occur in the spring. For fiscal year 2004-2005, the budget was amended twice: on December 13, 2004 and May 9, 2005.

#### **Change from Original Budget to Final Budget:**

##### **General Fund Revenues:**

	<b>Amount</b>	<b>Percent</b>
Total Revenues Original Budget	\$77,080,965	100.00%
Total Revenues Final Budget	<u>76,859,240</u>	<u>99.71%</u>
Decrease in Budgeted Revenues	\$ 221,725	0.29%

The District's final general fund revenues differed from final budget by \$770,234 or a variance of 1.01%. The differences are due to variations in estimated revenues such as fees and uncollected budgeted property taxes.

The Final revenue budget reflects the following changes from the original budget:

- Decrease in grant dollars available for staffing costs of approximately \$200,000 in At-Risk
- Decrease in expected revenue from Med-bill of approximately \$100,000.
- Increase in expected revenue from investments of approximately \$100,000

##### **General Fund Expenditures:**

The District's budget for expenditures changed as follows during the year:

	Amount	Percent
Total Expenses Original Budget	\$77,743,175	100.00%
Total Expenditures Final Budget	<u>78,597,768</u>	<u>101.10%</u>
Increase in Budgeted Expenditures	\$ 854,893	1.10%

The District's actual expenditures were less than final budget by 1.37%. This difference is primarily attributable to unspent Title I and Title II grant funding at June 30, 2004.

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The net effect of over and under spending from budget in other departments and programs was not material. Some significant budget adjustments for the year include:

- The District typically has adjustments each year for changes in federal and state grants due to increases or decreases in funding allocations as well as carryover funds approved for use that were not used in the prior grant years
- Increase of projected substitute employee costs of approximately \$100,000
- Increase of approximately \$60,000 needed to maintain the Nova net program which brings in student revenue
- Increase of approximately \$40,000 to hire bus aides
- Increase of approximately \$200,000 due to the State requirement to hire letter of intent teachers for absences exceeding 50 days
- Increase in estimate needed for retirement incentives and severance pay of approximately \$200,000

#### **Summary of Financial Information:**

During the 2004-2005 school year, Bay City Public Schools District-Wide net assets decreased by \$3,098,336 from 2003-2004. The total net assets is \$4,560,098. Total liabilities increased by \$638,898 and long-term liabilities, which are primarily bonds and compensated absences, increased by \$1,403,054. Total long-term debt at June 30, 2005 is \$20,992,181 as compared to \$19,589,127 at June 30, 2004. The governmental fund statements reflect a June 30, 2005 fund balance in the general fund of \$1,341,392 with a net decrease in fund balance of \$1,429,041 from the June 30, 2004 amount of \$2,770,433.

Based on these results, the District's financial position has remained stable through June 30, 2005 despite having a low percentage of reserves. The District has been able to maintain core programs and services despite the same or reduced state revenues the previous three years. The District's student population remained relatively stable to the prior year after several prior years of sharp declines.

The District's bond debt is covered by building and equipment additions and purchases leaving an overall net asset value. From the debt perspective, the majority of the total bond debt of \$14,329,755 will be paid off by 2009, or within 4 years. However, long-term compensated absences affect the District's operational budget costing approximately \$1.1 million annually and are valued at approximately \$10 million in total. This debt utilizes the current and future general fund resources and strains a budget trying to recover from an extremely low fund balance position.

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**For Fiscal Year Ended June 30, 2005**

For the year, results of operations in the general fund showed a loss of \$1,429,041. In total, the other nonmajor funds fund ended the 2004-2005 school year with revenues exceeding expenditures by \$1,280,664.

#### **Contacting the District's Financial Management:**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Finance and Accounting Department of the Bay City Public Schools in person or by mail at 910 North Walnut Street, Bay City Michigan 48708, or by telephone at 989-671-8112. The Bay City Public Schools website is also available at [www.bcschools.net](http://www.bcschools.net).