Management’s Discussion and Analysis

(Unaudited)

As management of the District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31,2015 . We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which follow this section.

# Financial Highlights

* The assets of the District exceeded its liabilities at the close of the most recent period by $5,730,156 (*net position*). Of this amount, $1,416,174 (*unrestricted net* *position*) may be used to meet the District’s ongoing obligations.
* As of the close of the current fiscal year, the District’s governmental funds reported combined ending fund balances of $1,826,748. Approximately 61% of this total amount, $1,114,530, is *available for spending* at the government’s discretion (*unassigned fund* *balance*).
* At the end of the current fiscal year, unassigned fund balance for the general fund was $1,114,530, or 23% of the total general fund expenditures.

# Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District’s assets and liabilities, with the difference between the two reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information for all of the current year’s revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District’s government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* andno component units for which it is financially accountable. The government-wide financial statements can be found on pages 12-13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District’s most significant funds-not the District as a whole.

* Some funds are required by State law and/or bond covenants.
* Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

* ***Governmental funds****. Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 14-17 of this report.
* ***Fiduciary funds***. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District’s own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net assets that can be found on page 18.
* **Notes to the financial statements.** The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-36 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 37-41 of this report.

# Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by $5,730,156 as of August 31, 2015.



The net investment in capital assets (e.g., land, buildings, furniture and equipment, and construction in progress) is $4,088,645. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional $225,337 of the District’s net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* $1,416,174 may be used to meet the District’s ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term* commitments that are less than currently available resources.

**Governmental activities.** The District’s total net position increased by $393,962. The total cost of all *governmental activities* this year was $5,476,301. The amount that our taxpayers paid for these activities through property taxes was $3,598,048 or 66%.

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# Financial Analysis of the District’s Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

***Governmental funds.*** The focus of the District’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District’s financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the District’s net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the District’s governmental funds reported combined ending fund balances of $1,826,748, a decrease of $25,509. Approximately 61% of this total amount ($1,114,530) constitutes *unassigned fund balance*. The remainder of fund balance is *restricted and assigned* to indicate that it is not available for new spending because it is *restricted* for the (1) retirement of long-term debt ($207,564), and for (2) federal/state grant restrictions ($4,654), and *assigned* (1) to pay for other expenditures as needed ($500,000).

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was $1,114,530. As a measure of the general fund’s liquidity, it may be useful to compare unassigned fund balance to the total fund expenditures. Unassigned fund balance represents 23% of the total general fund expenditures.

The fund balance of the District’s general fund decreased by $11,864 during the current fiscal year.

# Budgetary Highlights

Over the course of the year, the District recommended and the Board approved several revisions to budgeted revenue and appropriations. These amendments fall into the following categories:

* Two bus purchases ($186,000) and pay off bus lease ($32,498).
* Capital outlay – 4 ac units (total cost $27,772).

The following are significant variations between the final budget and actual amounts for the general fund:

* Actual revenues were lower than the budgeted amount by $17,629 primarily related to a decrease in state program revenues; and due to flat student growth.
* Actual expenditures were lower than budgeted by $351,201 primarily due to a decrease within instruction, student (pupil) transportation, and plant maintenance and operations.

# Capital Asset and Debt Administration

**Capital assets.** The District’s investment in capital assets for its governmental activities as of August 31, 2015, amounts to $5,523,362 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment.

Major capital asset acquisitions during the year consisted of the completion of the remodel to the gym locker rooms, the start of the District’s network infrastructure, and purchase of two buses.



Additional information on the District’s capital assets can be found in Note C on page 26 of this report.

**Long-term debt.** As of August 31, 2015, the District had total general obligation bonded debt outstanding of $950,000, a decrease of $295,000 over the prior year. The District’s amortization on bond premiums was $9,754, resulting in an ending balance of $24,382. The District’s capital leases outstanding decreased $61,024, resulting in an zero balance. The District’s notes payable balance decreased by $107,232, resulting in an outstanding balance of $460,335. The net pension liability for fiscal year 2015 had an ending balance of $311,534 due to the implementation of GASB 68 & 71.

The District’s bonds are rated “AAA” by virtue of the guarantee of the Permanent School Fund of the State of Texas. The uninsured tax supported debt of the District is rated “Not Rated” by Moody’s. The district also has one other issue outstanding which is rated “Not Rated” by Moody’s by virtue of the guarantee of the Permanent School Fund of the State of Texas.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the District is $27,589,287.

Additional information on the District’s long-term debt can be found in Note E on page 27 of this report.

# Economic Factors and Next Year’s Budgets and Rates

* District enrollment has shown a trend, over the last two years, of decreasing as the year progresses.
* District ADA has decreased to 476 students which ultimately affects WADA that drives the state funding formulas.
* The district’s total tax rate decreased from the preceding year from $1.30059 to $1.28664 per $100 appraised value. ($1.17 M&O and $.11664 I&S).
* The I&S (interest in sinking) rate for 2015-2016 is $.124069 per $100 of assessed value which is an increase from last year.
* The school district has appropriated revenues and expenditures (federal, state, local) in 2015-2016 budget of $5,237,458 and $5,352,312 respectively.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Santo Independent School District, P.O. Box 67, Santo, Texas 76472.