

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Smithville Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal period ended August 31, 2021. Please read it in conjunction with the Independent Auditor's Report, which precedes this Analysis and the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$1.0 million as a result of this period's operations.
- Total cost of all of the District's programs decreased \$417 thousand or 1.6% from prior year as a result of changes in assumptions related to other post-employment benefits rather than any reduction of programs offered.
- Governmental fund balances increased \$819 thousand and General Fund expenditures for the fiscal period were \$1.4 million less than the final budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the district's assets and liabilities. All of the current period's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position—the difference between the District's assets and liabilities is one way to measure the District's financial health or position.

- Viewed over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the Governmental activities. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- *Governmental funds*—All of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* can readily be converted to cash flow in and out and (2) the balances left at period-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Fiduciary fund*—Student activity funds are held by the district for the benefit of the various student groups. The custodial fund segregates those funds from the rest of the District's operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position was a \$1.1 million at August 31, 2021 (See Table A-1). Of this amount, \$1.7 million is invested in capital assets, and \$1.3 million is restricted, leaving a deficit balance in unrestricted net position of \$2.0 million.

Table A-1
Smithville Independent School District's Net Position

	Governmental Activities		Percentage
	8/31/21	8/31/20*	Change
<i>Assets:</i>			
Cash and Investments	\$ 11,443,341	\$ 11,307,555	1.2%
Other Current Assets	2,431,392	1,561,276	55.7%
Property and Equipment (net)	41,037,713	42,053,894	-2.4%
<i>Total Assets</i>	<u>54,912,446</u>	<u>54,922,725</u>	0.0%
<i>Deferred Outflows</i>	<u>2,568,497</u>	<u>3,144,610</u>	-18.3%
<i>Liabilities</i>			
Current Liabilities	3,633,965	2,134,844	70.2%
Long-term Liabilities	47,929,084	51,977,830	-7.8%
<i>Total Liabilities</i>	<u>51,563,049</u>	<u>54,112,674</u>	-4.7%
<i>Deferred Inflows</i>	<u>4,843,889</u>	<u>3,908,381</u>	23.9%
<i>Net Position:</i>			
Net Investment in Capital Assets	1,667,952	2,178,103	-23.4%
Restricted	1,340,092	892,007	50.2%
Unrestricted	(1,934,039)	(3,023,830)	-36.0%
<i>Total Net Position</i>	<u>\$ 1,074,005</u>	<u>\$ 46,280</u>	2220.7%

*Restated to reflect the result of a prior period adjustment for GASB 84

Changes in Net Position

The District's total revenues were \$26.7 million. A significant amount of this revenue, \$13.2 million or 49.4% comes from local taxes, \$13.2 million or 49.3% came from state, federal and local grants, while another \$348 thousand or 1.3% is related to charges for services.

The total cost of all programs and services was \$25.7 million; instruction and instruction related service costs were \$19.4 million or 76%.

Table A-2 presents the cost of each of the District's functions with a comparison to the prior period.

Table A-2
Changes in Smithville Independent School District's Net Position

	Governmental Activities		Percentage Change
	2021	2020*	
<i>Program Revenues:</i>			
Charges for Services	\$ 348,162	\$ 862,642	-59.6%
Operating Grants & Contributions	4,094,708	4,034,038	1.5%
Capital Grants & Contributions	-	-	0.0%
<i>General Revenues:</i>			
Property Taxes	13,184,885	12,253,325	7.6%
General Grants	8,674,884	7,796,427	11.3%
Investment Earnings	33,517	279,766	-88.0%
Miscellaneous	370,035	504,334	-26.6%
<i>Total Revenues</i>	<u>26,706,191</u>	<u>25,730,532</u>	3.8%
<i>Expenses:</i>			
Instruction	12,597,181	12,910,936	-2.4%
Instructional Resources & Media	291,314	305,573	-4.7%
Curriculum & Staff Development	370,292	313,820	18.0%
Instructional Leadership	383,665	422,638	-9.2%
School Leadership	1,167,608	1,239,174	-5.8%
Guidance, Counseling, Evaluation	372,523	391,564	-4.9%
Social Work Services	55,226	55,614	-0.7%
Health Services	309,185	249,016	24.2%
Student Transportation	1,060,561	1,062,788	-0.2%
Food Service	1,392,038	1,353,681	2.8%
Extracurricular Activities	1,446,928	1,376,839	5.1%
General Administration	872,533	782,033	11.6%
Plant Maintenance & Operations	2,352,788	2,600,124	-9.5%
Security Services	88,696	135,767	-34.7%
Data Processing Services	521,976	643,612	-18.9%
Community Services	119,635	125,184	-4.4%
Interest on Long-Term Debt	1,329,919	1,346,968	-1.3%
Facilities Acquisition and Construction	163,764	4,350	3664.7%
Payments to Fiscal Agent	590,916	564,195	4.7%
Other Intergovernmental Charges	191,718	211,586	-9.4%
<i>Total Expenses</i>	<u>25,678,466</u>	<u>26,095,462</u>	-1.6%
<i>Increase (Decrease) in Net Position</i>	1,027,725	(364,930)	
<i>Beginning Net Position</i>	46,280	411,210	
<i>Ending Net Position</i>	<u>\$ 1,074,005</u>	<u>\$ 46,280</u>	

*2020 has been restated to reflect the result of a prior period adjustment for GASB 84

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$26.5 million, an increase of \$1.4 million compared to the preceding period. The District experienced increases in local and federal revenues but a decrease in state revenues.

Expenditures from governmental fund types totaled \$25.7 million, a decrease of \$6.2 million compared to the preceding period. This decrease is primarily made up of the reduction in Facilities Acquisition and Construction compared to the prior year.

BUDGETARY HIGHLIGHTS

In accordance with state law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

The General Fund's expenditures were \$1.4 million less than the final budgeted expenditures. Combined with revenues, the General Fund balance increased \$1.6 million more than anticipated in the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2021, the District had invested \$69.7 million in a broad range of capital assets, including land, equipment, vehicles and buildings (See Table A-3). The most significant change in capital assets this year occurred with the completion of the elementary renovations.

Table A-3
Changes in Smithville Independent School District's Capital Assets

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 856,905	\$ -	\$ -	\$ 856,905
Construction in Progress	6,959,074	-	(6,959,074)	-
Buildings and Improvements	56,944,051	974,587	5,976,109	63,894,747
Vehicles	2,977,046	210,587	(113,500)	3,074,133
Equipment	2,298,935	13,894	(401,991)	1,910,838
Less: Accumulated Depreciation	<u>(27,982,117)</u>	<u>(2,154,487)</u>	<u>1,437,694</u>	<u>(28,698,910)</u>
Total Capital Assets	<u>\$ 42,053,894</u>	<u>\$ (955,419)</u>	<u>\$ (60,762)</u>	<u>\$ 41,037,713</u>

Land and Construction in progress are not depreciated.

Long Term Debt

At period-end the District owed \$39.5 million for outstanding bonds and notes payable (including unamortized premiums). More detailed information about the District's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT PERIOD'S BUDGETS AND TAX RATES

- The District's elected and appointed officials considered many factors when setting the fiscal year 2021 budget and tax rates. Those factors include property values, staffing trends, changes in enrollment, attendance rates and patterns, incoming federal funds, the local and state economy, and legislative mandates.
- Student enrollment for fiscal year 2022 is currently projected to be slightly higher than the previous fiscal year. The District will continue to study demographic trends that may impact special programs.
- Property values for ad valorem tax purposes have slightly increased for fiscal year 2022 as compared to fiscal year 2021.
- The Board approved an overall 3% raise for all professional staff and a 4% raise for clerical, para-professional and manual trades.
- The District's total tax rate decreased from \$1.31030 to \$1.2003 per \$100 valuation. The Maintenance and Operations tax rate decreased to \$0.9603 and the Interest & Sinking tax rate decreased from \$0.285 to \$0.24.
- District officials anticipate that the fund balances for the General and Child Nutrition funds will not materially change from fiscal year 2021 to fiscal year 2022.
- The Board approved utilizing fund balance from the Debt Service Fund to reduce bond payment obligations for the taxpayers.
- On June 21, 2021, The Smithville ISD Board of Trustees approved a property value limitation agreement with Big Star Solar LLC, under a state program that is specified in Chapter 313 of the Texas Tax Co Based on the data included in the application, the potential revenue protection payment from the company could reach \$1.05 million in the 2022-23 school year. A key benefit to Smithville ISD and its taxpayers is that the full project value will be taxed for payments on voter-approved bonds for school construction. The current estimates are that the project will have an initial peak value of \$190.5 million. Smithville ISD is no longer eligible for state facilities funding, so taxes collected on the project for bond payments lower the burden on existing taxpayers. The law also allowed the District to negotiate minimum annual supplemental payments of \$171,600 for 14 years, which may be used for any legal purpose.

CONTACTING 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, we invite you to contact the District's Finance Office, 901 N.E. 6th Street, Smithville, Texas 78957.