

PROSPECT HEIGHTS PUBLIC SCHOOLS, DISTRICT #23

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Prospect Heights Public School, District #23's (the District) annual financial report, represents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2009.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's discussion and analysis - for State and Local Governments, issued June 1999.

Financial highlights

- * The Financial Statements for the Fiscal Year 2009 ended with a \$1,498,714 negative change in net assets mainly due to the program addition of full day kindergarten and enhancements in the gifted, bilingual, and support service areas.
- * The Fund Balance Reserve Policy of maintaining at least a 25% ratio in Operating Fund Balances to Expenditures is continuing at over 33% but has been decreasing over the past years.
- * The School Districts Financial Profile, established by the Illinois State Board of Education to assess the School District's overall financial health, is in the highest category – Financial Recognition.
- * The District's Bond Rating by Moody's is "A1". There is an additional available bonding power in excess of \$42,000,000.

Overview of the Financial Statements

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

The statement of net assets and statement of activities are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are *fund financial statements* that focus on individual parts of the District. Fund statements generally report operation in more detail than the government-wide financial statements.

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

The major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain is shown in the following table, *Major features of the District-Wide and Fund Financial Statements*.

Table A-1. Major Features of the District-Wide and Fund Financial Statements

	Government-Wide	Fund Financial Statements		
	Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary such as educational and operations & maintenance	Activities the District operates similar to private business	Assets held by the District on behalf of someone else such as student activity monies
Required financial statements	Statement of net assets (deficit) and statements of activities	Balance sheet, statement of revenues, expenditures and change in fund balance (deficit)	Statement of net assets, statement of revenues expenses & changes in net assets & statements of cash flows	Statement of fiduciary net assets
Accounting basis and measurement focus	Actual accounting and economic resources focus	Cash basis accounting and current financial resources focus	Cash basis accounting and economic resources focus	Cash basis accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial & capital: short-term & long-term	Revenues for which cash is received during the year: no capital assets or long-term liabilities included	All assets and liabilities; both financial and capital; short term & long-term	All assets and liabilities, both short-term & long-term; funds may contain capital assets
Type of inflow/outflow information	All revenue and expenses during the year	Revenues for which cash is received during the year , expenditures when goods or services have been paid for	All revenues and expenses during the year	All additions and deductions during the year

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

Government-Wide Financial Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are presented as follows:

- *Governmental Activities* - All of the District's basic services are included here, such as regular and special education, transportation, support services, community programs and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs and to demonstrate compliance with various regulatory requirements.

- Some funds are required by state law and by bond covenants,
- The District established other funds to control and manage money for particular purposes (such as repaying its long-term debt) or to show that it is properly using certain revenues (such as working cash and tort liabilities).

The District has two kinds of funds:

- *Governmental funds* - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year 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 than 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, additional information is included as a separate statement explaining the relationship (or difference) between them.

- *Fiduciary funds* - the District serves as a trustee, or fiduciary, for assets that belong to others, such as the student activity funds. The District is responsible for ensuring that the assets, reported in these funds are used only for their intended purposes and only by those to whom the assets belong. These activities are excluded from the government-wide financial statements because the District cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net Assets: This is the fifth year the District has implemented GASB 34 reporting requirements. Year to year comparisons with the percentage changes of net assets are shown in Table A-2.

Changes in Net Assets: The District's property tax revenue is limited by The Property Tax Extension Limitation Act that limits the property tax extensions to 5% or the percent increase in the National Consumer Price Index (CPI), which ever is less. The CPI used for the taxes received this fiscal year was 2.5% accessing less in local revenues when compared to last year when the C.P.I. was 3.4% thus limiting our local revenues. The District had enhanced it's educational programs that have lead to a decrease it's net assets.

**Table A-2
Condensed Statement of Net Assets**

	Governmental Activities 2008	Governmental Activities 2009	Incr./Decr. From 2008	Percent Change
Current and other assets	\$12,447,367	\$ 7,651,920	\$-4,795,447	-38.53%
Capital assets	<u>\$ 7,098,500</u>	<u>\$ 9,634,709</u>	<u>\$ 2,536,209</u>	<u>35.73%</u>
Total assets	\$19,545,867	\$17,286,629	\$-2,259,238	-11.56%
Long-term debt outstanding	\$ 5,967,471	\$ 5,112,680	\$, -854,791	-14.32%
Other liabilities	<u>\$ 9,473</u>	<u>\$ 12,376</u>	<u>\$ 2,903</u>	<u>30.64%</u>
Total liabilities	\$ 5,976,944	\$ 5,125,056	\$ -851,888	-14.25%
Net assets:				
Invested in capital assets, net of				
Related debt	\$ 6,243,790	\$ 9,577,790	\$ 3,334,000	53.40%
Restricted	\$ 259,544	\$ 75,198	\$ -184,346	-71.03%
Unrestricted	<u>\$ 7,065,589</u>	<u>\$ 2,508,585</u>	<u>\$-4,557,004</u>	<u>-64.50%</u>
Total net assets	\$13,568,923	\$12,161,573	\$ -1,407,350	-10.37%

Changes in Prospect Heights School District 23's Net Assets

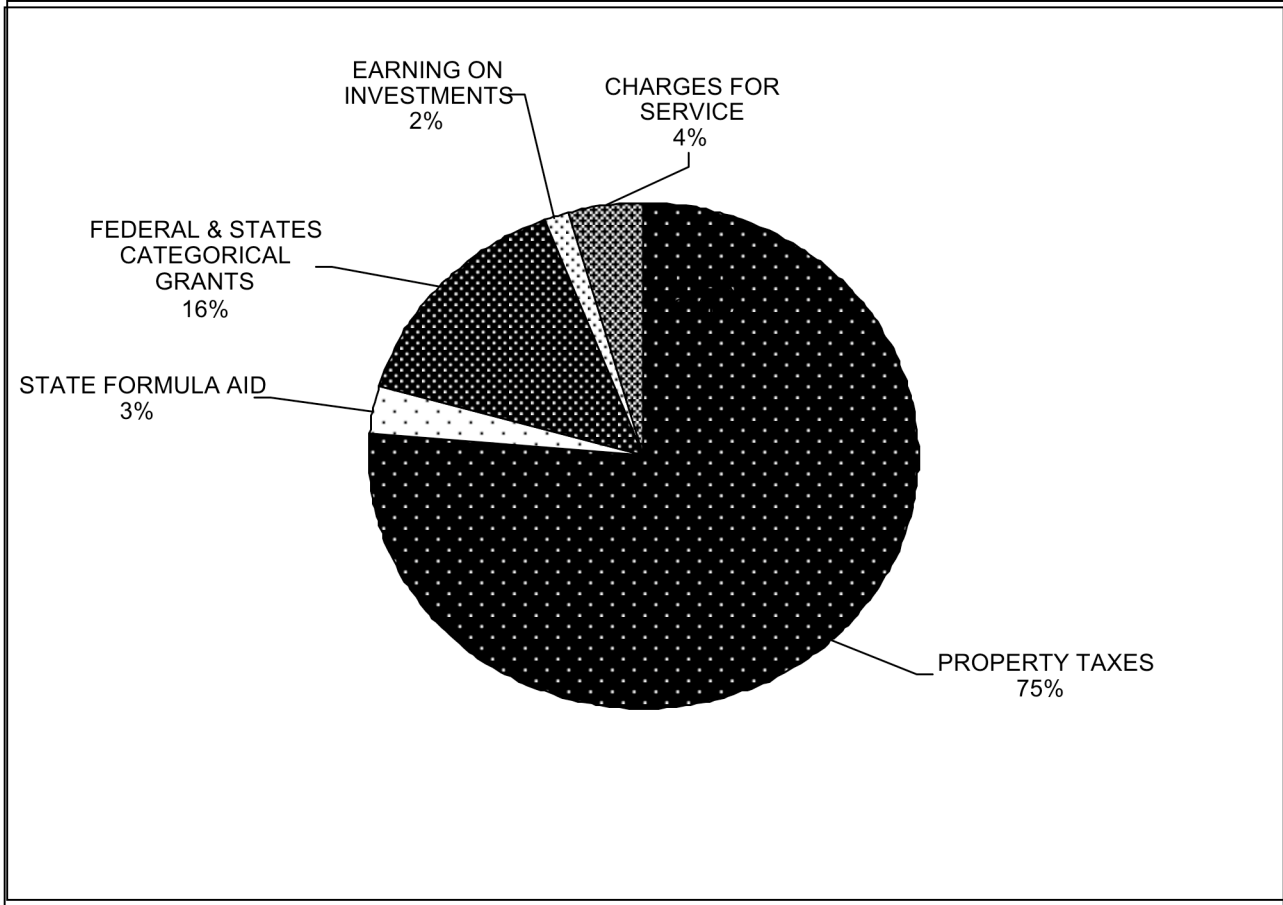
	Governmental Activities 2008	Governmental Activities 2009	Incr./Decr. From 2008	Percent Change
Revenues				
Program Revenues				
Charges For Service	\$ 1,069,035	\$ 841,373	\$ -227,662	-21.30%
Operating Grants and Contributions	\$ 2,446,748	\$ 3,442,136	\$ 995,388	40.68%
General Revenues				
Personal Property Replacement Taxes	\$ 88,567	\$ 77,643	\$ -10,924	-12.33%
Property Taxes, Levied for General Purposes	\$ 12,078,316	\$ 12,185,654	\$ 107,338	0.89%
Property Taxes, Levied for Debt Services	\$ 1,314,499	\$ 903,447	\$ -411,052	-31.27%
Property Taxes, Levied for Specific Purposes	\$ 2,231,560	\$ 1,970,330	\$ -261,230	-11.71%
Donations	\$ 66,362	\$ 2,000	\$ -64,362	-96.99%
State Aid - Formula Grants	\$ 589,543	\$ 614,945	\$ 25,402	4.31%
Loss on disposition of Assets	\$ -5,746	\$ -2,025	\$ 3,721	-64.76%
Unrestricted Investment Earnings	\$ 425,497	\$ 316,817	\$ -108,680	-25.54%
Premium Interest on Issuance of Bonds	\$ 235,098	\$ -0-	\$ -235,098	-100.00%
Total Revenues	\$ 20,539,479	\$ 20,352,320	\$ 187,159	-0.91%
Expenses				
Instruction	\$ 10,830,076	\$ 12,234,020	\$ 1,403,944	12.96%
Support Services	\$ 6,387,817	\$ 6,615,161	\$ 227,344	3.56%
Community Services	\$ 172,189	\$ 150,143	\$ -22,046	-12.80%
Nonprogrammed Charges	\$ 2,036,309	\$ 2,063,173	\$ 26,684	1.32%
Debt Service-Interest on Long Term Debt	\$ 340,418	\$ 281,066	\$ -23,352	7.67%
Depreciation - unallocated	\$ 506,696	\$ 507,471	\$ 755	0.15%
Total Expenses	\$ 20,237,505	\$ 21,851,034	\$ 1,613,529	7.97%
Increase (Decrease -) In Net Assets	\$ 301,974	\$ -1,498,714	\$ -1,800,688	

Governmental Activities

Revenues for the District's governmental activities are derived predominately from local property taxes. More than \$15 million dollars or 74% of the total revenues received by the District come from local property taxes. Figure A-3, presents the revenues by major categories that were received by the District. Despite the fact that the tax rate has decreased, because of local property tax cap legislation, from a high of 4.037% in 1994 to 2.363% in 2008, the District has not had a tax rate referendum passed since 1987.

PROPERTY TAXES	STATE FORMULA AID	FEDERAL & STATE CATEGORICAL GRANTS
\$ 15,137,074	\$ 614,945	\$ 2,763,772
EARNING ON INVESTMENTS	CHARGES FOR SERVICE	OTHER
\$ 316,817	\$ 841,373	- 0-

FIGURE A-3. SOURCES OF DISTRICT 23'S REVENUE FOR FISCAL YEAR 2009

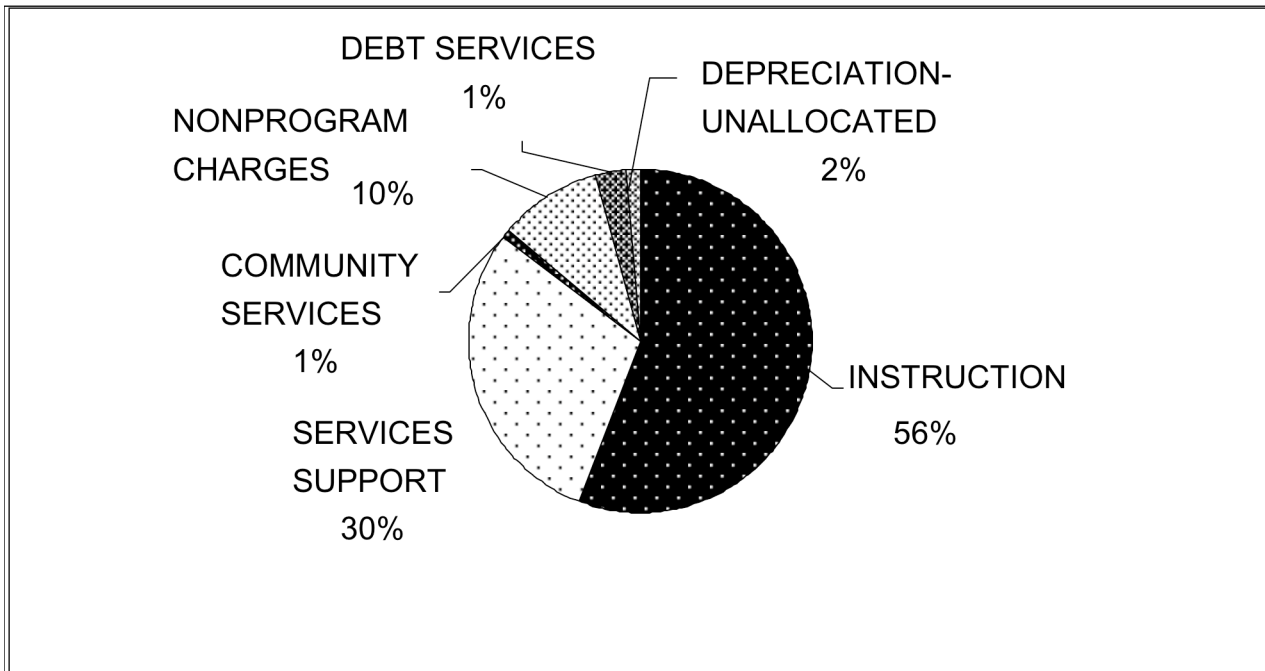


The Federal and State governments subsidize certain programs with grants and aids (\$3,378,717) but the majority of the District's cost is paid for by the District taxpayers (\$15,137,074) and interest earnings (\$316,817).

Figure A-4, shows the cost of the major District activities: Instruction - is the largest category with 54% of the expenses and includes regular education programs, in-district special education programs, educationally deprive/remedial programs, interscholastic programs, summer school, gifted and bilingual programs. Support Services - the next largest category with 32% of the expenses contains social work services, health services, media, testing, psychological and speech services along with Board of Education, administration, technology, business, transportation, data processing, food and information services. Nonprogrammed Charges - 10% of the expenses are comprised of special education services provided by other governmental units. Debt services - principal and interest paid by the District on the outstanding debt. Community services - extended day program run by the district at a charge to the recipients.

INSTRUCTION	SUPPORT SERVICES	COMMUNITY SERVICES
\$ 12,234,020	\$ 6,615,161	\$ 150,143
NONPROGRAM CHARGES	DEBT SERVICES	DEPRECIATION-UNALLOCATED
\$ 2,063,173	\$ 281,066	\$ 507,471

FIGURE A-4. SOURCES OF DISTRICT 23'S EXPENSES FOR FISCAL YEAR 2009



Financial Analysis of the District's Funds

The financial performance of the District is also reflected in its governmental funds throughout the fund financial statements. The District completed the year with a total governmental fund balance of \$ 7,639,544, an decrease from the prior years total governmental fund balance of \$ 12,437,894 that included a bond sale for capital improvements.

The District's Operating Fund Balances have declined because the Board of Education has instituted some expanded curricular programs in the areas of full day at risk kindergarten, gifted, bilingual education, expanded support services and building maintenance improvements (new roofs, parking lot upgrades, sewer repair, etc.)

General Fund Budgetary Highlights

Real Estate Taxes are not being levied in all funds because of tax caps. The district losses access to over \$ 3 million dollars of real estate tax revenue yearly because of local and state exemptions and refunds. This coupled with the loss of an additional \$ 3 million dollars in access because of the state imposed tax caps, puts a strain on our budget. The consumer price index used in the calculation of property taxes decreased to 2.5% from 3.4% leading to less than expected property tax revenues. The 2007 consumer price index that will be used for next years property tax receipts will increase to 4.1% increasing the access to our tax base but decreases with the 2008 consumer price index of 0 .1% that will generate little increase in revenue for the 2010-11 fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Education Fund had revenues of \$ 16,711,213 and expenditures of \$ 18,267,353. To cover the \$ 1,556,140 deficit in this fund the district had to utilize the reserves built up in prior years. The Operation and Maintenance fund had a deficit of \$ 109,404 due to expenditures exceeding revenue. The Board of Education approved a mandated 10 year Life Safety Facility Survey that maps out the expenditures needed to maintain the District Facilities according to existing codes. These expenditures are to be paid for through the sale of \$5,000,000 in Working Cash Fund Bonds and the work will be accounted for in a newly created Capital Improvement Fund. Transportation Fund had a \$ 173,266 deficit covered by existing fund balances and the Illinois Municipal Retirement/Social Security Fund had a \$111,075 surplus due to additional property taxes levied and received.

The State Board of Education created a new fund called the Tort Liability Fund to separately account for the district's property, liability, unemployment, risk management expenditures. To cover expenses and create a balance in this fund, interest earnings totaling \$198,378, were transferred from other funds. Future tax levies will be assessed for this fund to generate it's revenues but this levy will reduce dollar for dollar other fund levies.

The Transportation Fund is used to transport our students. Twenty five bus routes are utilized. The majority of the district is classified into hazardous zones, with the result that the children living within these areas are provided free transportation. Palatine Road, an express with frontage roads splits our district in half and the City of Prospect Heights has few sidewalks. The state reimburses the district for the majority of these costs with the balance coming from the local tax payer.

Capital Assets and Debt Administration

Capital Assets: Detailed information on the changes in capital assets can be found in Note 5 to the financial statements. The valuation of the assets are based upon cost. There was a \$2,536,209 net increase to our capital assets in fiscal year 2009 due to the capital improvements made to the facilities.

Long-term debt: At the year end, the District had \$ 5,112,680 in outstanding debt. This is approximately 10% of our total bonding power of \$ 47,782,061. Note 7 of the financial statements illustrates the debt that has been incurred, its date of issuance, purpose, retirements, and the principal and interest still outstanding. The copy machine lease is typically for five years often rolled over into new leases as the copy machines are upgraded. The State Technology Loan Program has not been funded in this years or next years State Budget. The district has paid all prior loans this fiscal year.

Factors Bearing on the District's Future

The District completes five year financial projections on a regular basis taking into consideration many factors and assumptions. This allows the District time to plan strategies as it relates to it's financial condition. Enrollment and the demographics of the district will remain relatively stable.

The Federal and State economic pictures do not look to be favorable. Smaller increases and/or cuts in funding will continue as additional mandates are being imposed and the State and Federal levels.

- * The No Child Left Behind Act is still being interpreted and defined, putting pressures on the financial burdens of the District;
- * The State Legislature and Governor continue to play games with the Illinois State Board of Education's budget, making local districts more reliant on the property tax;
- * Our District has started to implement full day kindergarten for at risk students;
- * Developed special education programs that will mainstream students back into the District from costly outside the District programs;
- * Continue to review the need for revenue generating proposals of increased fees and future property tax referendum;
- * Enhancements to the gifted and foreign language curriculum;
- * Hospital and other employee benefit expenditures continues to be a burden with the increases greater than the C.P.I. that caps our revenues.
- * Investment earnings continue to decline as fund balances decrease and rates decline.

If expenditures continue to increase faster than the Consumer Price Index as they are projected, the reserves will be used and the District will have to attempt a property tax referendum in the future and/or make substantial cuts in programs. The Teachers and the Custodial contracts have been negotiated and will expire June 30, 2011 and June 30, 2012 respectively.

The District is committed to offering our students a quality education at the same time paying fair wages for the work of our employees. Our facilities have gone through extensive renovation in the 1990's and a strong maintenance program is in place, but as we look to the future, additional renovation as planned may have to be delayed. Through the work of the District's Finance Committee and School Board we will continue to monitor and plan to keep a strong financial future for the District.

Contacting the District's Financial Management Team

This financial report is designed to provide the District's citizens, taxpayers, customers, 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 any questions about this report or need additional financial information, contact the Business Administrator, Rick Ewanio, at Prospect Heights School District 23, 700 N. Schoenbeck Road. Prospect Heights, Il. 60070.