

Management Report

for

Independent School District No. 831
Forest Lake, Minnesota

June 30, 2023

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PRINCIPALS

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To the School Board and Management of
Independent School District No. 831
Forest Lake, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 831's (the District) financial statements for the year ended June 30, 2023. We have organized this report into the following sections:

- Audit Summary
- Financial Trends in Public Education in Minnesota
- Financial Trends of Your District
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the District, management, and those with responsibility for oversight of the District's financial reporting process comments resulting from our audit and information relevant to school district financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 22, 2023

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

The District is subject to a Single Audit of its federal awards expenditures for the year ended June 30, 2023, which is required to be performed in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). It was originally planned that the Single Audit would be completed and issued, along with the District's financial statement audit by December 31, 2023. Due to the significant increase in pandemic-related federal funding received by Minnesota school districts this year, the Minnesota Department of Education (MDE) has extended the due date for Single Audits to coincide with the federal deadline of March 31, 2024. The District plans to issue its audited Schedule of Federal Awards Expenditures and related reports separately by this deadline.

AUDIT OPINIONS AND FINDINGS

Based on our audit of the District's basic financial statements for the year ended June 30, 2023:

- We have issued unmodified opinions on the District's basic financial statements. Our report included a paragraph emphasizing the District's implementation of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), during the year. Our opinion was not modified with respect to this matter.
- We reported no deficiencies in the District's internal control over financial reporting that we considered to be material weaknesses. It should be understood that internal controls are never perfected, and those controls which protect the District's funds from such things as fraud and accounting errors, need to be continually reviewed by your management and modified as necessary.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the District's compliance with Minnesota laws and regulations.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2023. However, the District implemented the following governmental accounting standard during the year:

As described in Note 1 of the notes to the basic financial statements, the District implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), during fiscal year ended June 30, 2023. This standard changed the way SBITA transactions are reported by the District, which did not result in a restatement of beginning net position in the current year.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for the current fiscal year is not finalized until after the District has closed its financial records. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident district and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services, which are computed using formulas derived by the MDE. Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the District has closed its financial records. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Position for severance benefits payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies, primarily described in GASB Statement Nos. 68, 74, and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

The depreciation/amortization of capital assets involves estimates pertaining to useful lives.

The District's self-insured activities require recording a liability for claims incurred, but not yet reported, which are based on estimates.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above and on the previous page in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

We proposed one uncorrected audit adjustment to the financial statements for recording General Fund salaries expenditures and salaries payable for employee contracts settled after year-end in the amount of \$207,924. Management has determined that the effect of this item was immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated December 22, 2023.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis and the pension and OPEB-related required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplemental information and the Uniform Financial Accounting and Reporting Standards Compliance Table, accompanying the financial statements, which are not RSI. With respect to this supplemental information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplemental information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and other district information, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

FINANCIAL TRENDS IN PUBLIC EDUCATION IN MINNESOTA

This section provides some state-wide funding and financial trends in public education in Minnesota.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota school districts is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

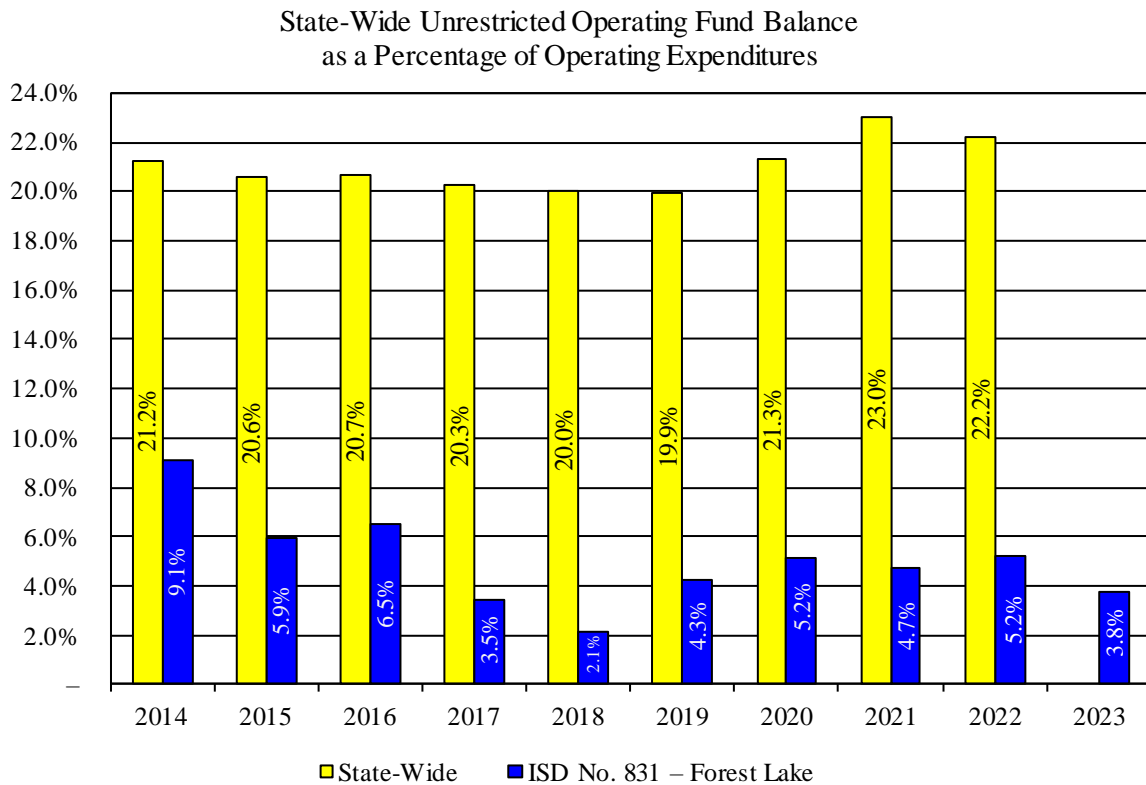
The table below presents a summary of the formula allowance for the past decade and as approved for the next two fiscal years. The 2023 Legislature approved per pupil increases of \$275 for fiscal 2024 and \$143 for fiscal 2025. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the “roll-in” of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual districts. The \$529 increase in 2015 was offset by changes to pupil weightings and the general education aid formula that resulted in an increase equivalent to approximately \$105, or 2.00 percent, state-wide.

Fiscal Year Ended June 30,	Formula Allowance	
	Amount	Percent Increase
2014	\$ 5,302	1.50 %
2015	\$ 5,831	2.00 %
2016	\$ 5,948	2.00 %
2017	\$ 6,067	2.00 %
2018	\$ 6,188	2.00 %
2019	\$ 6,312	2.00 %
2020	\$ 6,438	2.00 %
2021	\$ 6,567	2.00 %
2022	\$ 6,728	2.45 %
2023	\$ 6,863	2.00 %
2024	\$ 7,138	4.00 %
2025	\$ 7,281	2.00 %

For fiscal 2026 and beyond, the actual increase will be equal to the Consumer Price Index-Urban (CPI-U), with a floor of 2.00 percent and a cap of 3.00 percent. CPI-U is determined based upon the prior two fourth-quarter totals. The inclusion of inflationary increases to this formula does not prevent future legislative increases from being approved.

STATE-WIDE SCHOOL DISTRICT FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the unrestricted operating fund balance as a percentage of operating expenditures.



Note: State-wide information is not available for fiscal 2023.

The calculation above reflects only the unrestricted fund balance of the General Fund, and the corresponding expenditures, which is the same method the state uses for the calculation of statutory operating debt. We have also included the comparable percentages for your district.

The average unrestricted fund balance as a percentage of operating expenditures maintained by Minnesota school districts decreased gradually from 21.2 percent at the end of fiscal 2014 to 19.9 percent at the end of fiscal 2019, a period of relative stability in the state's economic condition and school funding. This ratio began rising again during the fiscal years impacted by the COVID-19 pandemic, increasing to 23.0 percent at the end of fiscal 2021. In 2022 the state-wide ratio decreased to 22.2 percent as districts returned to more traditional learning models and program operations with the relaxation of pandemic restrictions.

As of June 30, 2022, this ratio was 5.2 percent for the District, as compared to a state-wide average of 22.2 percent. The District's unrestricted operating fund balance as a percentage of operating expenditures was 3.8 percent at the end of the current year.

Having an appropriate fund balance is an important factor in assessing the District's financial health because a government, like any organization, requires a certain amount of equity to operate. It is important to review fund balance levels on an ongoing basis to ensure a sufficient equity reserve is available to support programs and cash flow of the District.

The table below shows a comparison of governmental fund revenue per ADM received by Minnesota school districts and your district. Revenues for all governmental funds are included, except for the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds. Other financing sources, such as proceeds from sales of capital assets, insurance recoveries, bond sales, loans, and interfund transfers, are also excluded.

Governmental Funds Revenue per Student (ADM) Served								
	State-Wide		Metro Area		ISD No. 831 – Forest Lake			
	2021	2022	2021	2022	2021	2022	2023	
General Fund								
Property taxes	\$ 2,576	\$ 2,645	\$ 3,411	\$ 3,506	\$ 2,937	\$ 3,055	\$ 3,107	
Other local sources	438	571	323	446	373	549	545	
State	10,514	10,504	10,517	10,536	9,752	9,945	10,394	
Federal	992	1,335	956	1,397	703	876	637	
Total General Fund	<u>14,520</u>	<u>15,055</u>	<u>15,207</u>	<u>15,885</u>	<u>13,765</u>	<u>14,425</u>	<u>14,683</u>	
Special revenue funds								
Food Service	576	803	568	770	486	942	789	
Community Service	612	731	684	836	777	879	952	
Debt Service Fund	<u>1,512</u>	<u>1,508</u>	<u>1,549</u>	<u>1,537</u>	<u>1,591</u>	<u>1,658</u>	<u>1,646</u>	
Total revenue	<u>\$ 17,220</u>	<u>\$ 18,097</u>	<u>\$ 18,008</u>	<u>\$ 19,028</u>	<u>\$ 16,619</u>	<u>\$ 17,904</u>	<u>\$ 18,070</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>5,898</u>	<u>5,953</u>	<u>5,851</u>	
Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.								
Source of state-wide and metro area data: School District Profiles Report published by the MDE								

ADM used in the table above and on the next page are based on enrollments consistent with those used in the MDE School District Profiles Report, which include extended time ADM, and may differ from ADM reported in other tables. Changes in enrollment also impact comparisons in the table above and on the next page when revenue and expenditures are based on fixed costs, such as debt levies and principal and interest on outstanding indebtedness.

The mix of local and state revenues vary from year-to-year, primarily based on funding formulas and the state’s financial condition. The mix of revenue components from district to district varies, due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

The District earned \$105,721,667 in the governmental funds reflected above in fiscal 2023, a decrease of \$865,304 (0.8 percent) from the prior year. Total revenue per ADM served increased by \$166 (0.9 percent) per student. State sources in the General Fund increased with the increase in the basic formula allowance, as discussed earlier, along with improved special education funding. Federal sources in the General Fund were down with fewer pandemic-related funding recognized in the current year. Food service revenues were down with the end of the federal program that provided free meals for all students in the prior year. Increased programming and participation contributed to the per student revenue increase in the Community Service Special Revenue Fund.

The following table reflects similar comparative data available from the MDE for all governmental fund expenditures, excluding the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds. Other financing uses, such as bond refundings and transfers, are also excluded.

Governmental Funds Expenditures per Student (ADM) Served							
	State-Wide		Metro Area		ISD No. 831 – Forest Lake		
	2021	2022	2021	2022	2021	2022	2023
General Fund							
Administration and district support	\$ 1,184	\$ 1,249	\$ 1,205	\$ 1,300	\$ 1,105	\$ 1,122	\$ 1,194
Elementary and secondary regular instruction	6,198	6,494	6,527	6,838	4,939	5,051	5,054
Vocational education instruction	197	210	179	191	274	235	250
Special education instruction	2,626	2,724	2,792	2,883	2,284	2,538	2,743
Instructional support services	812	816	917	939	1,183	1,140	1,142
Pupil support services	1,228	1,429	1,285	1,558	1,829	1,682	1,904
Sites, buildings, and other	1,083	1,113	1,052	1,076	1,394	1,887	1,816
Total General Fund – noncapital	13,328	14,035	13,957	14,785	13,008	13,655	14,103
General Fund capital expenditures	793	876	815	897	705	1,321	1,162
Total General Fund	14,121	14,911	14,772	15,682	13,713	14,976	15,265
Special revenue funds							
Food Service	532	670	522	659	523	753	856
Community Service	610	689	682	774	733	821	894
Debt Service Fund	1,576	1,599	1,609	1,561	1,562	1,597	1,641
Total expenditures	<u>\$ 16,839</u>	<u>\$ 17,869</u>	<u>\$ 17,585</u>	<u>\$ 18,676</u>	<u>\$ 16,531</u>	<u>\$ 18,147</u>	<u>\$ 18,656</u>
ADM served per MDE School District Profiles Report (current year estimated)					<u>5,898</u>	<u>5,953</u>	<u>5,851</u>
Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.							
Source of state-wide and metro area data: School District Profiles Report published by the MDE							

Expenditure patterns also vary from district to district for various reasons. Factors affecting the comparison include the growth cycle or maturity of the District, average employee experience, availability of funding, population density, and even methods of allocating costs. The differences from program to program reflect the District’s particular character, such as its community service programs, as well as the fluctuations from year-to-year for such things as capital expenditures.

The District spent \$109,153,704 in the governmental funds reflected above in fiscal 2023, an increase of \$1,123,038 (1.0 percent) from the prior year. On a per student basis, this represents an increase of \$509 (2.8 percent). The increase was spread across most categories, as noted in the table above, with the largest changes in pupil support services with increased transportation costs and special education instruction due to federal funds used for tuition in the current year. General Fund capital expenditures decreased, due to decreased long-term facilities maintenance projects. Food service expenditures increased mainly in supplies and materials and with additional capital expenditures in the current year. Consistent with the revenue increase discussed on the previous page, spending was up with more participation in community service.

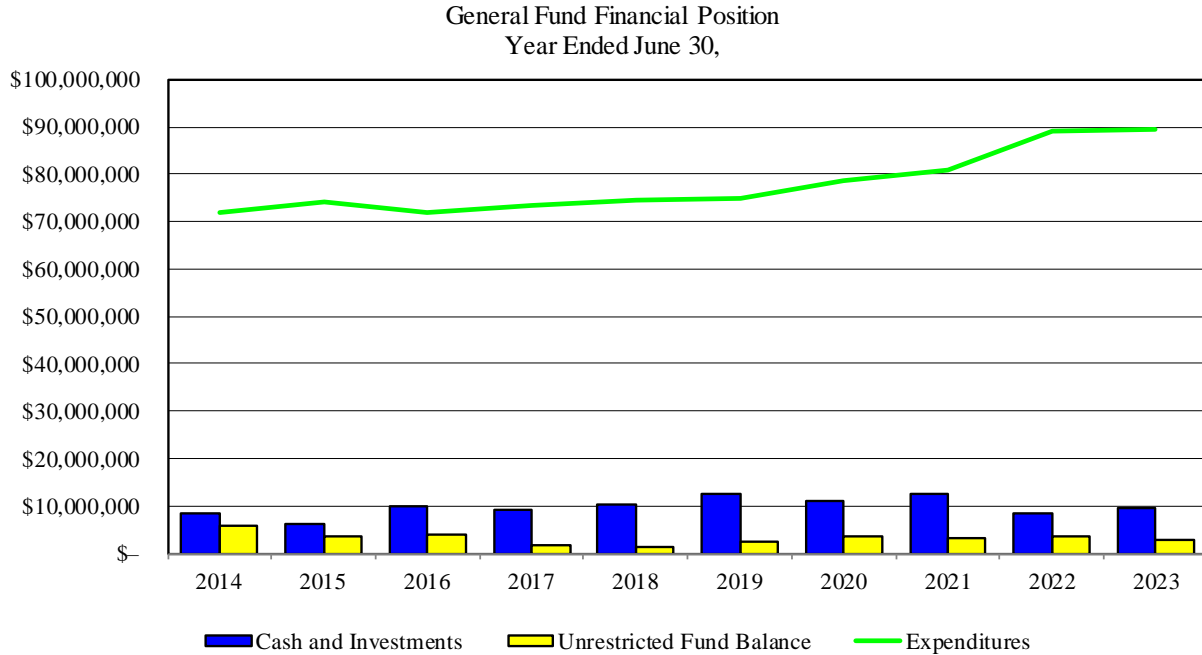
SUMMARY

The COVID-19 pandemic caused numerous financial and operational challenges for districts in recent years; creating instability in student populations, requiring numerous shifts in the delivery of educational services, and resulting in substantial new and unfamiliar federal revenue streams, to name a few. Challenges remain, with tight labor markets, inflationary increases, and the end of many federal pandemic-related funding programs. District school boards, administrators, and employees continue to manage these issues, as districts strive to provide a safe and effective learning experience for their students.

FINANCIAL TRENDS OF YOUR DISTRICT

GENERAL FUND FINANCIAL POSITION

The following graph displays the District’s General Fund trends of financial position and changes in the volume of financial activity. Unrestricted fund balance and cash balance are two indicators of financial health, while annual expenditures are often used to measure the size of the operation.



The District ended fiscal year 2023 with a General Fund cash and investments balance (net of borrowing) of \$9,384,828, an increase of \$870,305 from the previous year. The unrestricted fund balance in the General Fund at year-end (excluding restricted fund balance deficits) was \$2,676,370, a decrease of \$1,034,478.

GENERAL FUND COMPONENTS OF FUND BALANCE

The following table presents the equity components of the General Fund for the past five years:

	June 30,				
	2019	2020	2021	2022	2023
Nonspendable fund balances	\$ 151,143	\$ 37,519	\$ 146,426	\$ 125,360	\$ 200,185
Restricted fund balances (1)	(155,042)	(817,251)	(420,040)	(1,991,897)	(2,514,180)
Unrestricted fund balances					
Assigned	583,713	475,778	451,669	250,117	195,749
Unassigned	1,922,781	2,951,198	2,715,968	3,460,731	2,480,621
Total fund balance	\$ 2,502,595	\$ 2,647,244	\$ 2,894,023	\$ 1,844,311	\$ 362,375
Unrestricted fund balances as a percentage of expenditures	<u>3.4%</u>	<u>4.3%</u>	<u>3.9%</u>	<u>4.2%</u>	<u>3.0%</u>
Unassigned fund balances as a percentage of expenditures	<u>2.6%</u>	<u>3.7%</u>	<u>3.4%</u>	<u>3.9%</u>	<u>2.8%</u>
(1) Includes deficits in restricted fund balance accounts allowed to accumulate deficits under UFARS, which are part of unassigned fund balance on the accounting principles generally accepted in the United States of America-based financial statements.					

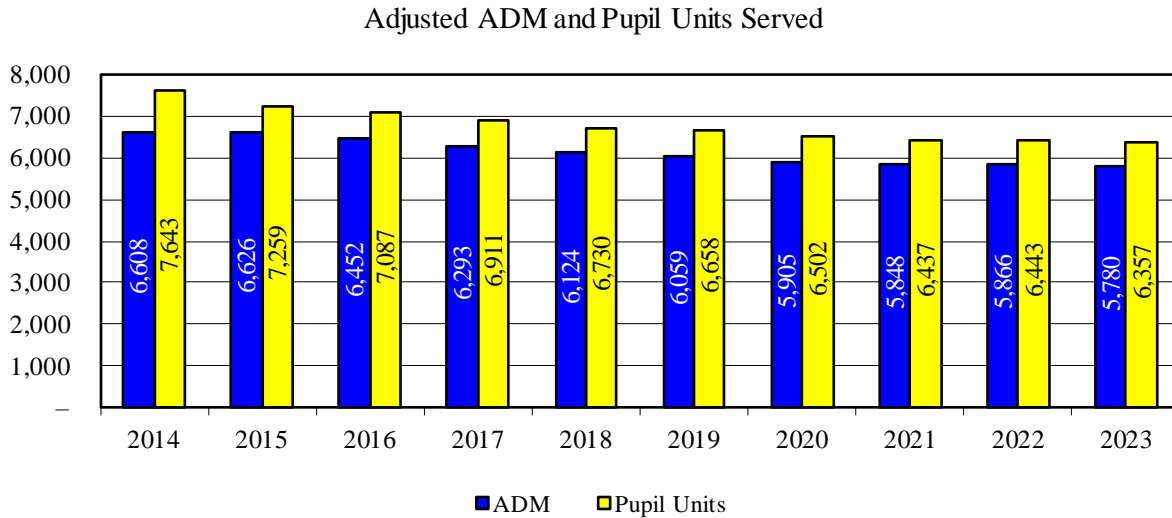
The table above reflects the total General Fund unrestricted fund balance and percentages, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula. The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

Through legislative changes in funding, public school districts have become extremely dependent on state revenues to finance operations. Considering the demands placed on the state's limited resources, we believe it is particularly important to maintain an adequate level of fund balance. We want to emphasize the importance of maintaining an adequate fund balance and the importance of reviewing these fund balance levels on a continuing basis.

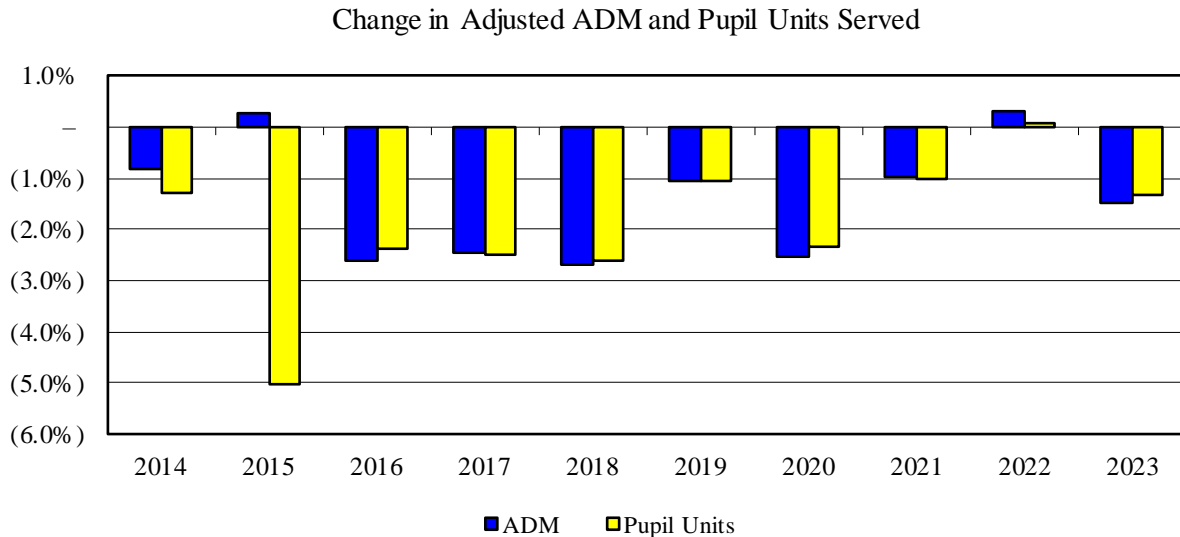
At June 30, 2023, unrestricted fund balance in the General Fund represented 3.0 percent of annual expenditures, or less than 2 weeks of operations assuming level spending throughout the year.

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph presents the District’s adjusted ADM and pupil units served for the past 10 years:



The following graph shows the rate of change in ADM served by the District from year-to-year, along with the change in the resulting pupil units:



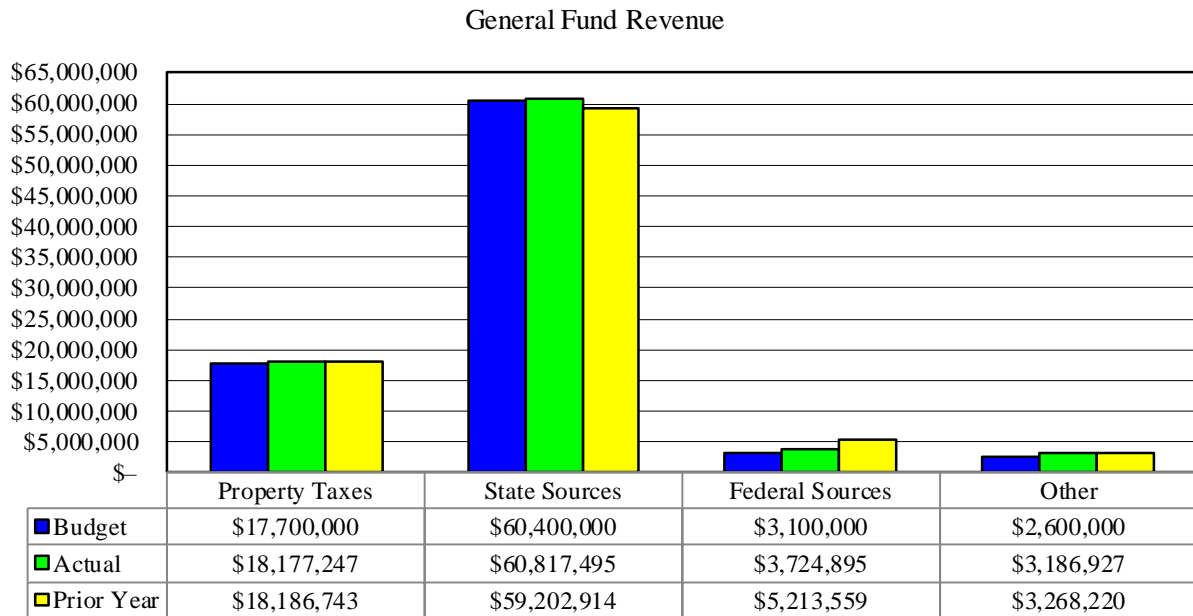
The change in pupil units for 2015 includes the effect of legislative reductions to pupil units.

ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes, the impact of the prior year final adjustments, which affect this year’s revenue, and also the final adjustments caused by open enrollment gains and losses.

The District served an estimated ADM of 5,780, a decrease of 86 ADM, or 1.5 percent, from the prior year. The number of pupil units served by the District for fiscal 2023 was 6,357, a decrease of 86 (1.3 percent) from the prior year.

GENERAL FUND REVENUES

The following graph presents the District's General Fund revenue for 2023:



Total General Fund revenues were \$85,906,564 for the year ended June 30, 2023, which was \$2,106,564 (2.5 percent) over the final budget and \$35,128 more than the prior year.

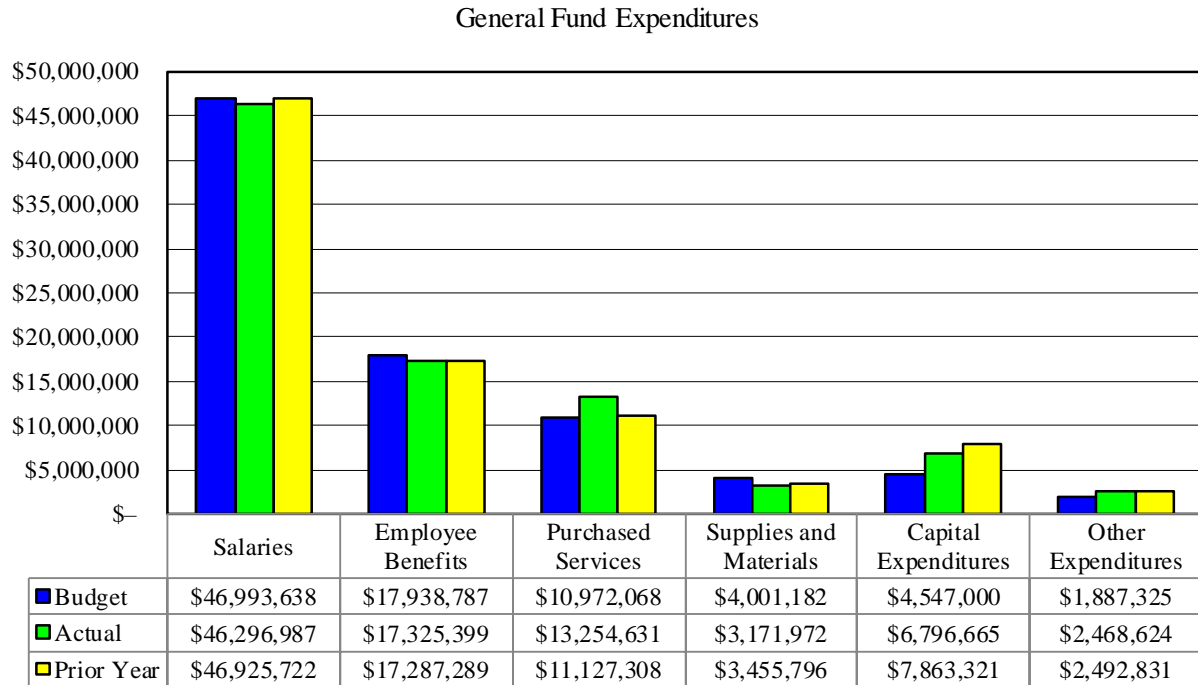
The variance to budget was spread across all sources, with the largest variances in federal sources and other local sources, which were \$624,895, and \$586,927 over budget, respectively. Federal sources were over budget with more title grants and special education grants recognized than anticipated. The variance to budget in other local sources was mainly due to conservative budgeting for investment earnings and other charges and fees.

The increase from the prior year was primarily in state sources, which increased \$1,614,581 from the prior year, due to the increase in the basic formula allowance, as discussed earlier, along with improved special education funding. This increase was offset by a decrease in federal sources of \$1,488,664 with fewer pandemic-related grants recognized in the current year.

The graph above reflects the concentration of state sources (70.8 percent), followed by property taxes (21.2 percent) received to finance General Fund operations.

GENERAL FUND EXPENDITURES

The following graph presents the District's General Fund expenditures for 2023:



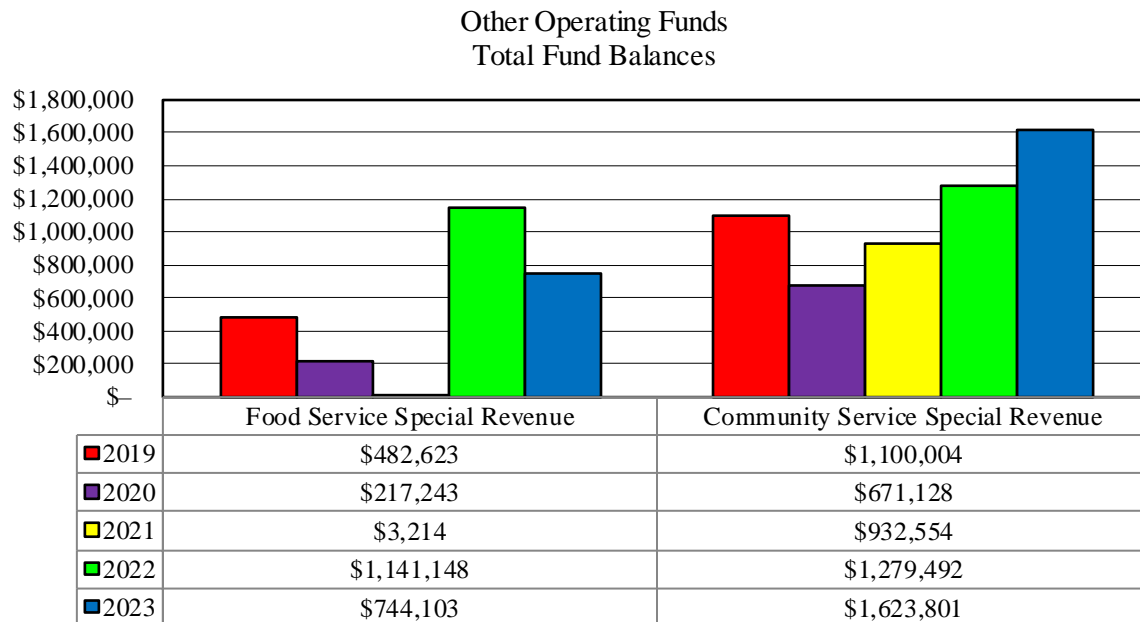
Total General Fund expenditures were \$89,314,278 for the year ended June 30, 2023, which was \$2,974,278 (3.4 percent) over the final budget and \$162,011 (0.2 percent) more than the prior year.

The variance to budget was spread across several categories as noted above, with the largest variance in purchased services and capital expenditures. Purchased services were \$2,282,563 over budget, mainly in tuition, transportation, and utility costs. Capital expenditures were \$2,249,665 over budget, due to new leases recognized in the current year that were not included in the budget.

The increase from the prior year was mainly in purchased services expenditures offset by a decrease in capital expenditures. Purchased services expenditures increased \$2,127,323 from the prior year, mainly in tuition, transportation, and utility costs, as previously mentioned. This increase was offset by a decrease in capital expenditures of \$1,066,656, due to the timing of long-term facilities maintenance projects.

OTHER FUNDS OF THE DISTRICT

The following graph shows what is referred to as the other operating funds. The remaining nonoperating funds are only included in narrative form below, since their level of fund balance can fluctuate significantly, due to such things as issuing and spending the proceeds of refunding or building bonds and, therefore, the trend of fund balance levels is not necessarily a key indicator of financial health. It does not mean that these funds cannot experience financial trouble or that their fund balances are unimportant.



FOOD SERVICE SPECIAL REVENUE FUND

The District's Food Service Special Revenue Fund equity decreased \$397,045 in 2023, compared to a planned increase of \$37,120. Revenues were \$378,722 over budget, mainly in federal sources, while expenditures were \$802,887 over budget, primarily in supplies and materials. Participation levels were difficult to anticipate with programming changes in the financing of school nutrition programs, contributing to the variances in revenues and expenditures, compared to budget and the prior year. The Food Service Special Revenue Fund had a year-end fund balance of \$744,103, representing 14.8 percent of annual expenditures totaling \$5,011,137.

Over the years, we have emphasized to our school district clients that food service operations should be self-sustaining, and should not become an additional burden on general education funds. This would include the accumulation of fund balance for future capital improvements to food service facilities and to provide a cushion in the event of a negative trend in operations.

COMMUNITY SERVICE SPECIAL REVENUE FUND

The District's Community Service Special Revenue Fund equity increased \$344,309 in 2023, compared to a budgeted decrease of \$112,326. Revenues were \$358,052 over budget, mainly in tuition and fees due to conservative budgeting for program participation. Expenditures were under budget by \$98,583. The Community Service Special Revenue Fund had a year-end fund balance of \$1,623,801, representing 31.1 percent of annual expenditures totaling \$5,228,468.

The Community Service Special Revenue Fund, like the Food Service Special Revenue Fund, needs to be self-sustaining. In addition to cost controls, financial analysis of the costs of providing programs, including overhead, is important. Fees and tuition charges should be sufficient to cover these costs, as well as potential funding shortfalls from state, federal, or property tax sources.

CAPITAL PROJECTS – BUILDING CONSTRUCTION FUND

The Capital Projects – Building Construction Fund ended the year with an increase in fund balance of \$358,690, compared to a \$3,900,000 increase anticipated in the budget. Capital outlay expenditures were more than budget, due to the timing of project costs. At year-end, the District reported a deficit unassigned fund balance of \$265,876, which will be reimbursed with proceeds from a future bond issue.

DEBT SERVICE FUND

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. It is important to remember that resources of the Debt Service Fund are restricted to the payment of outstanding debt obligations of the District. As of June 30, 2023, the District has \$2,005,031 available for future debt service.

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis. The District maintains two internal service funds. These funds are used to account for the health and dental insurance plans offered by the District to its employees as self-insured plans.

The internal service funds had a net position deficit as of June 30, 2023 of \$2,055,951, which represents a decrease of \$533,367 from the prior year, mainly due to health benefit claims in the current year exceeding premiums collected.

POST-EMPLOYMENT BENEFITS TRUST FUND

The District has established a Post-Employment Benefits Trust Fund to account for an irrevocable trust account established to finance the District's liability for post-employment healthcare benefits. At year-end, trust net position of \$432,446 is available for future OPEB payments.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents district resources available for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, this statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized reconciliation of the District's governmental fund balances to net position, and the separate components of net position for the last two years:

	June 30,		Change
	2023	2022	
Net position – governmental activities			
Total fund balances – governmental funds	\$ 4,469,434	\$ 5,573,333	\$ (1,103,899)
Total capital assets, net of depreciation/amortization	207,515,602	205,854,872	1,660,730
Total long-term debt (without pensions and OPEB)	(167,656,446)	(169,179,088)	1,522,642
Pension adjustments	(55,080,053)	(67,935,305)	12,855,252
OPEB adjustments	(9,954,443)	(9,509,642)	(444,801)
Other adjustments	(3,814,794)	(3,173,971)	(640,823)
Total net position – governmental activities	<u>\$ (24,520,700)</u>	<u>\$ (38,369,801)</u>	<u>\$ 13,849,101</u>
Net position			
Net investment in capital assets	\$ 44,945,857	\$ 42,525,055	\$ 2,420,802
Restricted	2,566,827	2,561,191	5,636
Unrestricted	<u>(72,033,384)</u>	<u>(83,456,047)</u>	<u>11,422,663</u>
Total net position	<u>\$ (24,520,700)</u>	<u>\$ (38,369,801)</u>	<u>\$ 13,849,101</u>

Some of the District's fund balances translate into restricted net position by virtue of external restrictions (statutory restrictions) or by the nature of the fund they are in (e.g. Food Service Special Revenue Fund balance can only be spent for Food Service program costs). The unrestricted net position category consists mainly of the General Fund unrestricted fund balances, offset against noncapital long-term obligations, such as vacation payable, severance payable, net pension, and net OPEB liabilities.

Total net position increased by \$13,849,101 during fiscal 2023. The District's net investment in capital assets increased \$2,420,802 this year. The change in this category of net position typically depends on the relationship between the rate at which the District is adding capital assets, the rate at which the District's capital assets are being depreciated/amortized, and how that compares to the rate at which the District is repaying the debt issued to purchase or construct those assets.

The District's increase in net position restricted for community service and other state funding restrictions contributed to the increase in the restricted portion of net position. The change in unrestricted net position is due to changes in the District's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association pension plan liabilities and related deferments.

ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years.

GASB STATEMENT NO. 100, *ACCOUNTING CHANGES AND ERROR CORRECTIONS – AN AMENDMENT OF GASB STATEMENT NO. 62*

The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The requirements of this statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 101, *COMPENSATED ABSENCES*

The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used, but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled.

This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used, but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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