

Management Report

for

Independent School District No. 624
White Bear Lake, Minnesota

June 30, 2023

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PRINCIPALS

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To the Board of Education and Management of
Independent School District No. 624
White Bear Lake, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 624 White Bear Lake, Minnesota'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
January 4, 2024

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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 Expenditures of Federal Awards and related reports separately by this deadline.

AUDIT OPINIONS AND FINDINGS

Based on our audit of the District's 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.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

- We reported two findings based on our testing of the District's compliance with Minnesota laws and regulations.

Minnesota Statutes § 118A.03 requires that if the District's deposits exceed federal deposit insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for all of the District's accounts as of June 30, 2023.

Minnesota Statutes § 123B.52, Subd. 1 requires contracts exceeding \$175,000 for work or labor, or for the purchase of furniture, fixtures, or other property or for the construction or repair of school facilities must not be made by the District without first advertising for bids or proposals by two weeks' published notice in the official newspaper of the District. This notice must state the time and place of receiving bids and contain a brief description of the subject matter. For one of five bids selected for testing, the required advertisement published in the District's official newspaper was missing.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the District's financial statements for the year ended June 30, 2023, we performed procedures to follow-up on any findings and recommendations that resulted from our prior year audit. We reported the following finding that was corrected by the District in the current year:

Minnesota Statutes § 118A.05, Subdivision 4 gives authority for the District to enter into all investments, including investments for shares of an investment company which are registered under the Federal Investment Company Act of 1940, and whose shares are registered under the Federal Securities Act of 1933, as long as the investment company's fund receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization and is invested in financial instruments with a final maturity no longer than 13 months. As of June 30, 2022 and during the year then ended, the District invested in accounts that were not authorized by Minnesota Statutes.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Timeliness of Bank Reconciliations

Starting in December 2022, the District had turnover of business office employees, which resulted in bank reconciliations not being performed monthly. Internal controls over financial reporting are intended to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. To be effective, control procedures, such as monthly bank reconciliations, must be performed regularly and in a timely manner. We recommend that the District review its procedures for completing monthly bank reconciliations to ensure that necessary reconciliations can still be performed when the District experiences turnover of key employees.

Payroll Tax Tables

During our audit, we recalculated a sample of employees' paychecks throughout the fiscal year to ensure accuracy of various deductions and withholdings. We noted for one of the paychecks selected, the District had not updated their payroll system with the latest state tax tables that were available for the period. Two months elapsed before the District updated the tax tables to the latest version, which resulted in the over-withholding of employees' state taxes during these payroll periods. We recommend that the District review its payroll procedures in place to ensure the tax tables being used are accurate and up to date.

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 basic financial statements, the District implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), during fiscal year ended June 30, 2023. The standard changed the way SBITA transactions are reported by the District, but 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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and correct by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

The District passed on the recording of a contract payable in the Capital Projects – Building Construction Fund totaling \$180,825.

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 January 4, 2024.

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 supplementary information accompanying the financial statements and the separately issued Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table, which are not RSI. With respect to this supplementary 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 supplementary 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 statistical section, 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.

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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.

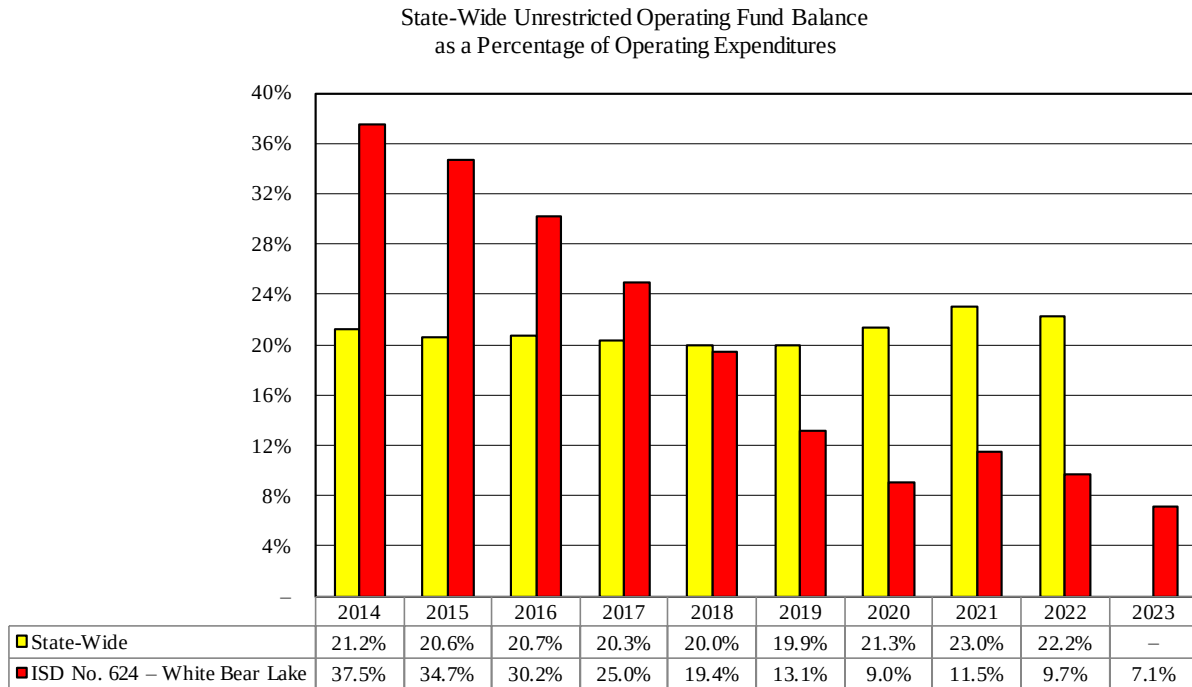
The table below presents a summary of the formula allowance for the past decade and as approved for the next two fiscal years. The 2023 Legislature approved per pupil increases of \$275 for fiscal 2024 and \$143 for fiscal 2025. The amount of the formula allowance and the percentage change from year-to-year 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.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 7.1 percent at the end of the current year, as compared to 9.7 percent at June 30, 2022.

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. 624 – White Bear Lake			
	2021	2022	2021	2022	2021	2022	2023	
General Fund								
Property taxes	\$ 2,576	\$ 2,645	\$ 3,411	\$ 3,506	\$ 3,410	\$ 3,805	\$ 3,935	
Other local sources	438	571	323	446	335	389	420	
State	10,514	10,504	10,517	10,536	10,035	10,350	10,522	
Federal	992	1,335	956	1,397	1,005	1,102	711	
Total General Fund	14,520	15,055	15,207	15,885	14,785	15,646	15,588	
Special revenue funds								
Food Service	576	803	568	770	637	838	632	
Community Service	612	731	684	836	766	858	878	
Debt Service Fund	1,512	1,508	1,549	1,537	2,003	2,904	2,854	
Total revenue	<u>\$ 17,220</u>	<u>\$ 18,097</u>	<u>\$ 18,008</u>	<u>\$ 19,028</u>	<u>\$ 18,191</u>	<u>\$ 20,246</u>	<u>\$ 19,952</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>8,474</u>	<u>8,345</u>	<u>8,354</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 following 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 had revenue of \$166,683,972 in governmental funds reflected above in fiscal 2023, a decrease of \$2,275,274 (1.3 percent) from the prior year. Total revenue per ADM served decreased by \$294 per student. Revenues from federal sources decreased \$391 per student, due to the spend down of pandemic-related entitlements in prior years. The Food Service Special Revenue Fund decrease of \$206 is mainly the result of the end of the federal program that provided free meals for all students in the prior year. The decreases were offset by increases in state sources and property tax revenue. The increase of \$172 per student in state sources relates to increases in state special education aid. Property tax revenue increased \$130 per student, mainly due to an increase in the voter-approved tax levies, increased revenue from the tax shift, and an improved collection rate.

The following table reflects similar comparative data available from the MDE for all governmental fund expenditures, excluding the Capital Projects – Building Construction and the 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. 624 – White Bear Lake			
	2021	2022	2021	2022	2021	2022	2023	
General Fund								
Administration and district support	\$ 1,184	\$ 1,249	\$ 1,205	\$ 1,300	\$ 819	\$ 890	\$ 917	
Elementary and secondary regular instruction	6,198	6,494	6,527	6,838	6,550	6,493	6,454	
Vocational education instruction	197	210	179	191	130	147	208	
Special education instruction	2,626	2,724	2,792	2,883	3,064	3,188	3,347	
Community service	–	–	–	–	–	22	38	
Instructional support services	812	816	917	939	789	1,250	1,080	
Pupil support services	1,228	1,429	1,285	1,558	1,488	1,797	1,758	
Sites, buildings, and other	1,083	1,113	1,052	1,076	1,610	2,088	1,869	
Total General Fund – noncapital	13,328	14,035	13,957	14,785	14,450	15,875	15,671	
General Fund capital expenditures	793	876	815	897	214	97	271	
Total General Fund	14,121	14,911	14,772	15,682	14,664	15,972	15,942	
Special revenue funds								
Food Service	532	670	522	659	540	636	735	
Community Service	610	689	682	774	755	873	979	
Debt Service Fund	1,576	1,599	1,609	1,561	1,936	2,820	2,947	
Total expenditures	<u>\$ 16,839</u>	<u>\$ 17,869</u>	<u>\$ 17,585</u>	<u>\$ 18,676</u>	<u>\$ 17,895</u>	<u>\$ 20,301</u>	<u>\$ 20,603</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>8,474</u>	<u>8,345</u>	<u>8,354</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 District spent approximately \$172,118,652 in the governmental funds reflected above in fiscal 2023, an increase of \$2,710,340 (1.6 percent) from the prior year. General Fund operating expenditures (excluding capital) decreased \$204 per student. Instructional support services decreased \$170 per student, mainly due to purchases made in fiscal 2022 to replace technology. Sites, buildings, and other decreased by \$219 per student, mainly in purchased services, due to timing of facility maintenance project costs. General Fund capital expenditures increased \$174 per student, due to timing of project costs. Special education instruction increased \$159 per student, mainly in salaries and benefits.

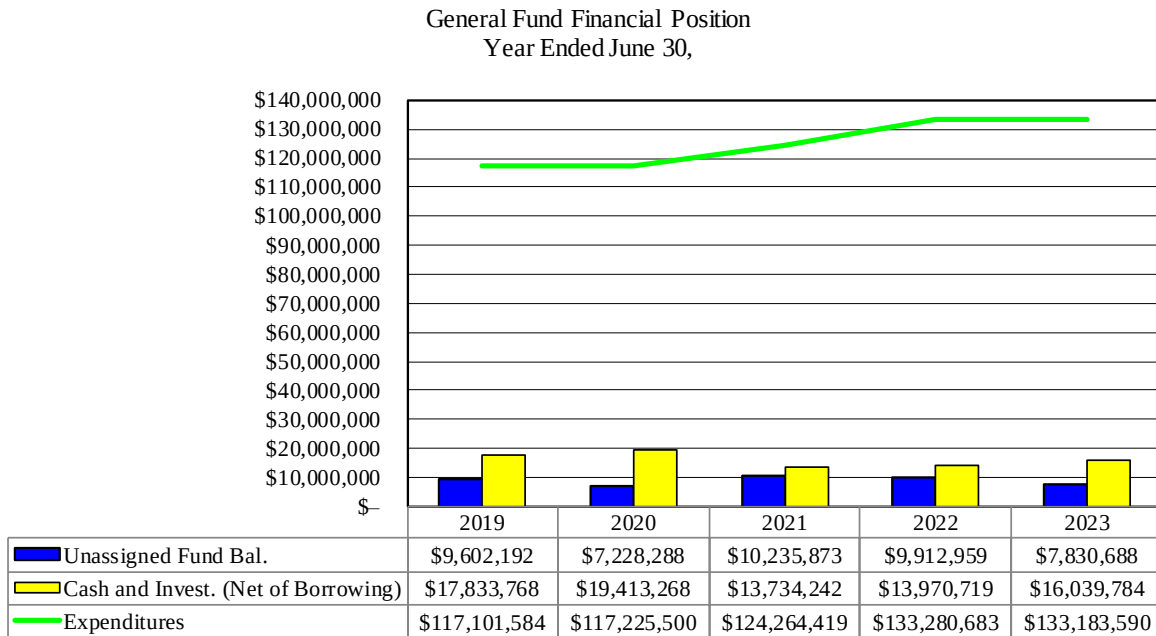
SUMMARY

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 face many challenges, 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. Unassigned 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 balance of \$16,039,784 (net of borrowing), an increase of \$2,069,065 from the previous year, mainly related to decreases in amounts due from the MDE. Unassigned fund balance at year-end (excluding restricted account deficits) was \$7,830,688, a decrease of \$2,082,271.

In total, General Fund revenue and other financing sources were less than expenditures by \$2,914,519. This compares to a budget that projected a decline in fund balance of \$5,592,772. Revenues and other financing sources were higher than budget projections by \$1,275,712 and expenditures were less than budget by \$1,402,541.

GENERAL FUND COMPONENTS OF FUND BALANCE

The following table presents the components of the General Fund's balance for the past five years:

	Year Ended June 30,				
	2019	2020	2021	2022	2023
Nonspendable fund balances	\$ 407,677	\$ 14,573	\$ 62,849	\$ 712,804	\$ 44,626
Restricted fund balances (1)	3,723,893	6,540,545	4,505,782	3,530,300	3,366,230
Unrestricted fund balances					
Assigned	3,344,748	2,000,000	2,000,000	—	—
Unassigned	9,602,192	7,228,288	10,235,873	9,912,959	7,830,688
Total fund balance	<u>\$ 17,078,510</u>	<u>\$ 15,783,406</u>	<u>\$ 16,804,504</u>	<u>\$ 14,156,063</u>	<u>\$ 11,241,544</u>
Unassigned fund balances as a percentage of expenditures	<u>8.3%</u>	<u>6.2%</u>	<u>8.2%</u>	<u>7.4%</u>	<u>5.9%</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 unassigned fund balance and percentage, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula.

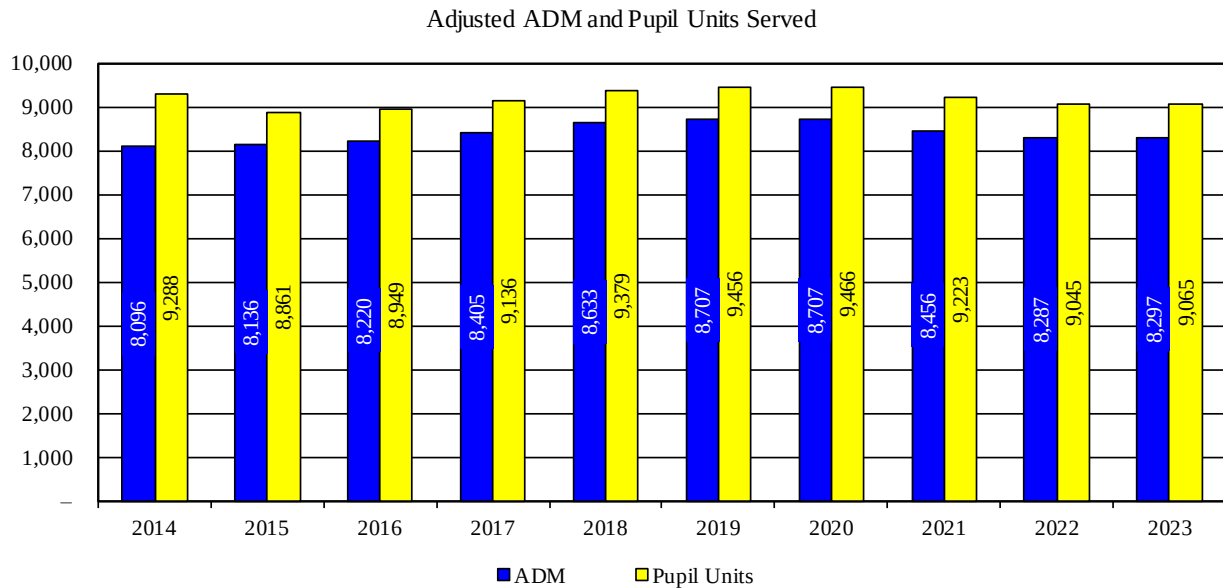
The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

Fund Balance Policy

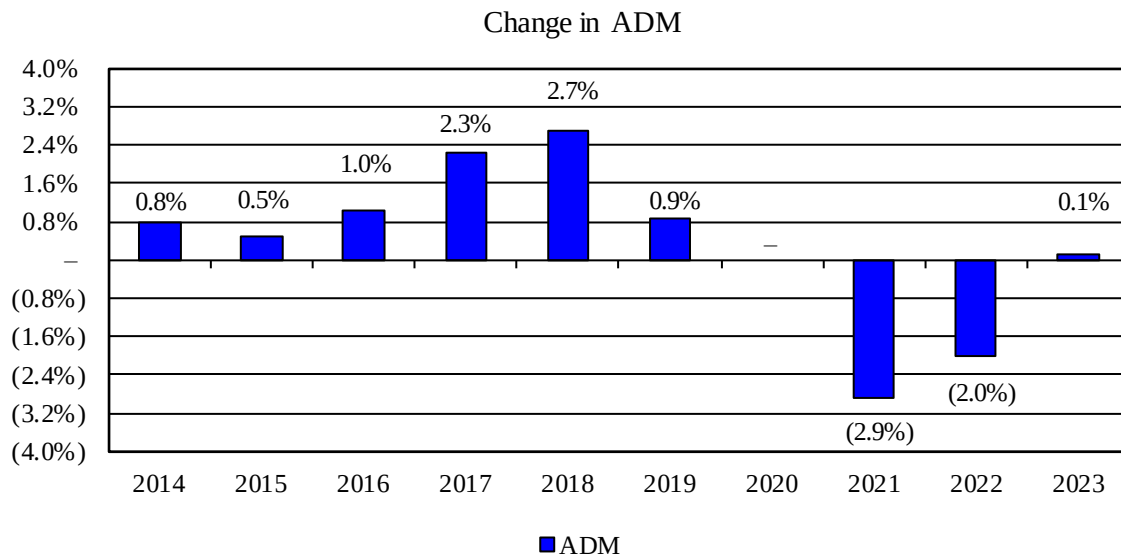
The Board of Education has formally adopted a fund balance policy regarding the unassigned fund balance for the General Fund. The policy states that the District will strive to maintain a minimum unassigned General Fund balance of 8.0 percent of the annual budget, which equates to one month of operating expenditures. At June 30, 2023, the unassigned fund balance of the General Fund was 5.9 percent of total fiscal 2023 expenditures, or 3.1 weeks of operating expenditures.

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:

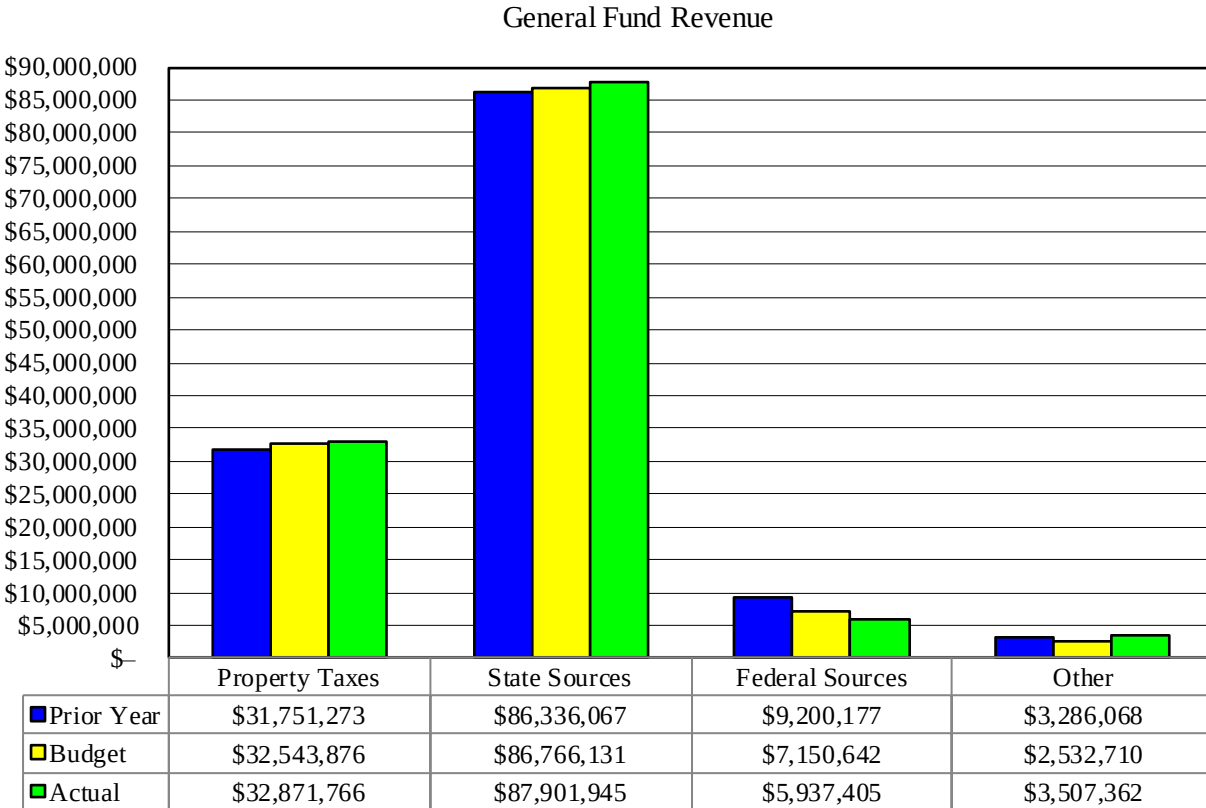


ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated ADM, since the counts 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 adjusted ADM of 8,297 in 2023, an increase of 10 ADM from the previous year.

GENERAL FUND REVENUE

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



Total General Fund revenues were \$130,218,478 for the year ended June 30, 2023, which was \$1,225,119 (0.9 percent) over the final budget, and \$355,107 less than the prior year.

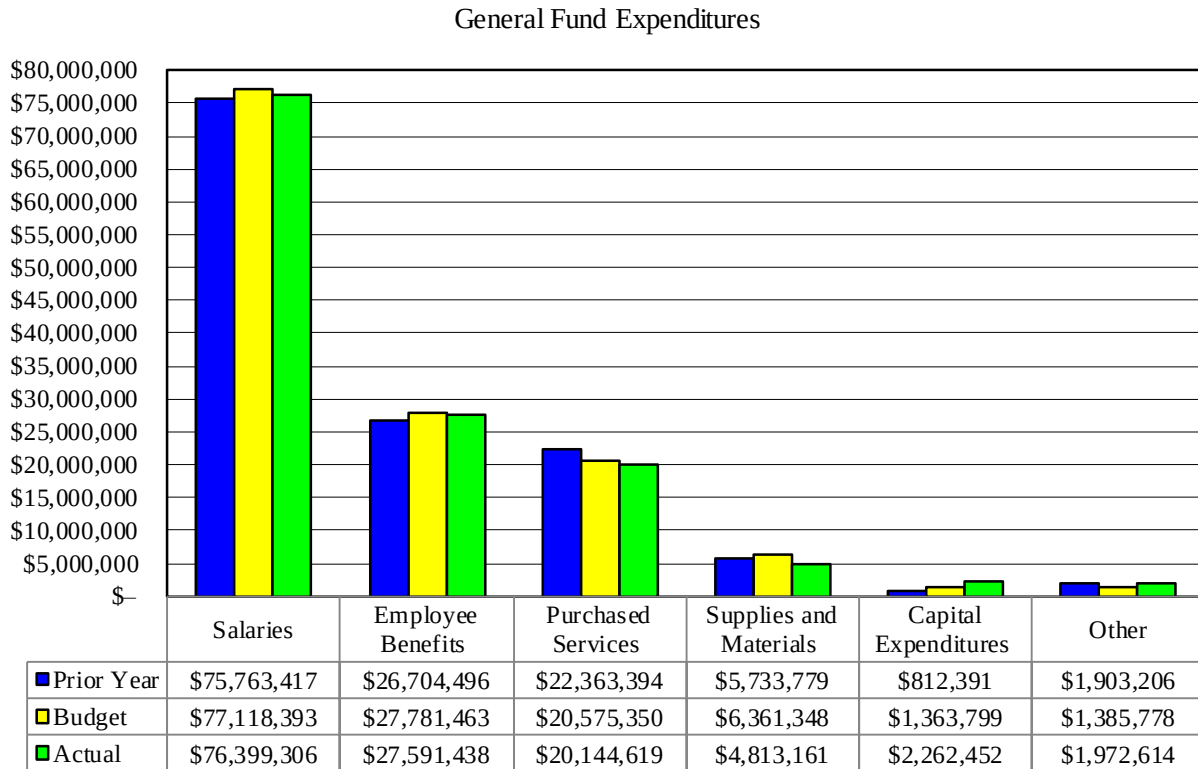
State sources were over budget by \$1,135,814, due to improved funding for special education. Federal sources were under budget by \$1,213,237, primarily due to a decrease in pandemic-related stimulus grant spending. Other revenue was over budget by \$798,136, mainly the result of conservative budgeting in this area.

Property tax revenue increased \$1,120,493, due to an increase in the tax levy, increases from the tax shift, and an improved collection rate. State aid increased \$1,565,878, mainly in special education aid. Revenue decreased \$3,262,772 in federal aid related to decreases in spending of COVID-19 stimulus-related grants and aids as availability is declining.

The graph above reflects the concentration of state sources (67.5 percent), followed by property taxes (25.2 percent) recognized to finance General Fund operations.

GENERAL FUND EXPENDITURES

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



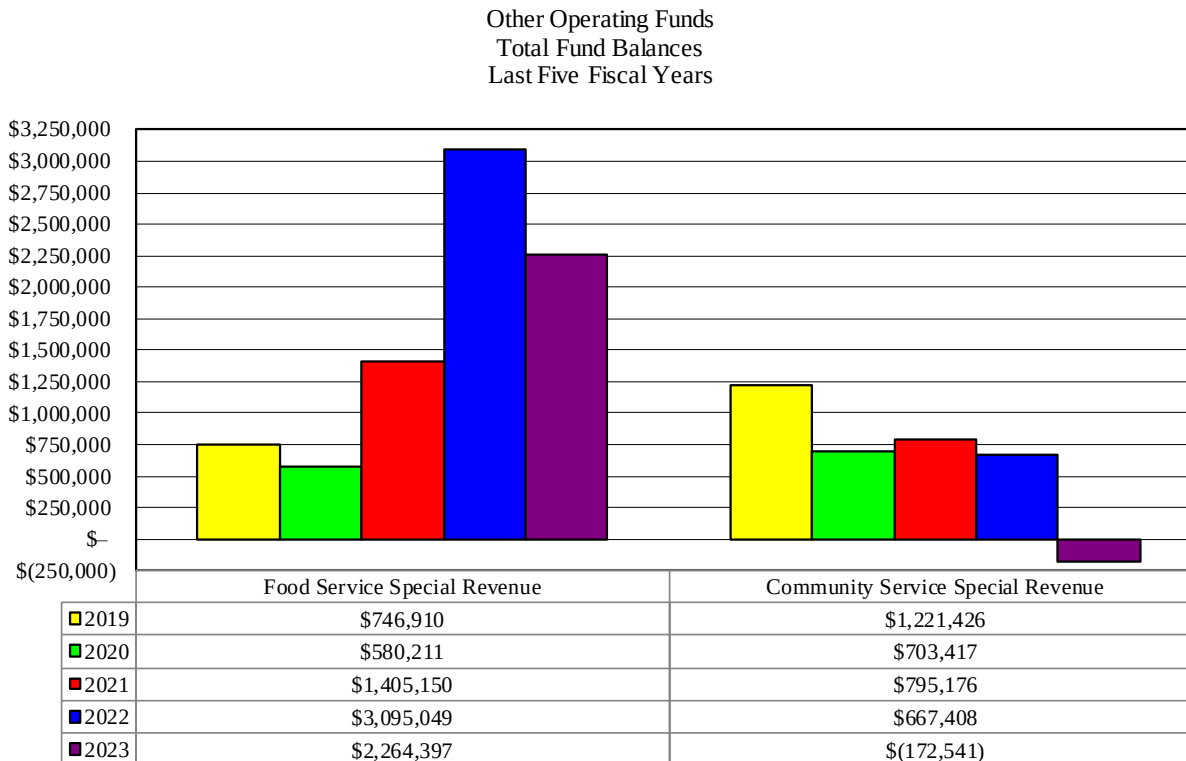
Total General Fund expenditures for 2023 were \$133,183,590 for the year ended June 30, 2023, which was \$1,402,541 (1.0 percent) under the final budget and \$97,093 less than the prior year.

Supplies and materials were under budget by \$1,548,187. Instructional support services supplies and material were under budget by \$913,621, due to the replacement of technology devices not occurring in fiscal 2023 as planned. Salaries and benefits were under budget by \$909,112 spread across multiple programs. Purchased services were under budget \$430,731, mostly in sites and buildings as facilities maintenance project spending was lower than projected. Capital expenditures were more than budget by \$898,653, mainly for instructional support services and sites and buildings. Other expenditures were higher than budget by \$586,836, mainly in regular instruction.

Salaries and benefits increased \$1,522,831, mostly in special education programs. Purchased services decreased \$2,218,775 as sites and buildings costs decreased \$1,856,137, mostly from declines in facilities maintenance projects. Supplies and materials decreased \$920,618, which was due to planned replacement of technology devices in fiscal 2022. Capital expenditures increased \$1,450,061, mainly for pupil support service programs and sites and buildings related costs.

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 ended fiscal year 2023 with a decrease in fund balance of \$830,652, compared to a budgeted decrease of \$1,333,248. Revenues were \$396,921 over budget, while expenditures were under budget by \$104,433. Revenues were over budget with more meal sales, largely due to conservative budgeting as the District transitioned from federal programs that provided free meals for all students in the prior year.

The Food Service Special Revenue Fund has a year-end fund balance of \$2,264,397, representing 36.9 percent of annual expenditures.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended the year with a decrease in fund balance of \$839,949, compared to a budgeted decrease of \$186,497. Revenues were \$267,744 over budget, while expenditures were over budget by \$921,196, mainly in extended day programs for afterschool childcare and nonpublic pupil aid related costs.

The Community Service Special Revenue Fund had a year-end deficit fund balance of \$172,541, representing (2.1) percent of annual expenditures.

Over the years, we have emphasized to our clients that food service and community service operations should be self-sustaining and should not become an additional burden on general education funds.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund is accounting for the costs of capital projects related to bonds issued by the District. These projects were authorized by the Board of Education and through approval of the District's Long-Term Facilities Maintenance Program by the MDE, or by voter approval. Total bond proceeds of \$102,022,563 were utilized in fiscal 2023.

Debt Service Fund

Total funding of debt service is controlled in accordance with each outstanding debt issue's financing plan.

Self-Insured Health Benefits Internal Service Fund

The following table presents the activity reported for the past five fiscal years in this fund:

	2019	2020	2021	2022	2023
Operating revenue					
Contributions from governmental funds	\$ 15,153,666	\$ 15,247,335	\$ 15,124,354	\$ 15,098,324	\$ 14,953,701
Operating expenses					
Self-insured benefits	13,849,119	13,561,064	13,755,394	14,772,569	15,525,864
Operating income (loss)	1,304,547	1,686,271	1,368,960	325,755	(572,163)
Nonoperating revenue					
Investment earnings	46,732	42,814	2,786	4,927	96,402
Income (loss) before transfers	1,351,279	1,729,085	1,371,746	330,682	(475,761)
Transfers (out)	–	–	–	(146,186)	–
Change in net position	1,351,279	1,729,085	1,371,746	184,496	(475,761)
Net position					
Beginning of year	(174,765)	1,176,514	2,905,599	4,277,345	4,461,841
End of year	\$ 1,176,514	\$ 2,905,599	\$ 4,277,345	\$ 4,461,841	\$ 3,986,080

The Self-Insured Health Benefits Internal Service Fund is used to account for health insurance offered by the District to its employees as a self-insured plan. The fund ended the year with a net position of \$3,986,080, representing 25.7 percent of annual operating expenses.

Self-Insured Dental Benefits Internal Service Fund

The Self-Insured Dental Benefits Fund is used to account for dental insurance offered by the District to its employees as a self-insured plan. The fund ended the year with a net position of \$288,316, representing 28.0 percent of annual operating expenses.

Post-Employment Benefits Trust Fund Fiduciary Fund

The District established a Post-Employment Benefits Trust Fund to finance post-employment health benefit liabilities. The District established this fund in fiscal 2009 through the issuance of \$40,085,000 in bonds. These funds are held in trust, restricted for the payment of OPEB liabilities. The net position held in this fund at June 30, 2023 totaled \$29,962,721. This trust will be used by the District in future years to finance the OPEB obligations of the District.

ANALYSIS OF OPEB FUNDING

The District underwent an actuarial study dated July 1, 2021, which was rolled forward to June 30, 2023, to determine the District's post-employment health benefit liabilities, based on current contracts and employees in place.

This OPEB plan is funded by the District's Post-Employment Benefits Trust Fund, which is reported in the District's financial report as a fiduciary fund. As of the most recent actuarial study, the plan was 180.0 percent funded, which is based on an actuarial accrued liability for benefits of \$16,649,317 and the value of assets within the trust fund of \$29,962,721. The assets in the trust fund exceeded the OPEB-accrued liability reported in the actuarial study by \$13,313,404 at June 30, 2023.

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,		
	2022	2023	Change
Net position – governmental activities			
Total fund balances – governmental funds	\$ 212,456,925	\$ 146,866,181	\$ (65,590,744)
Net OPEB plan related assets	12,548,968	12,652,193	103,225
Total capital assets, less accumulated depreciation/amortization	240,699,562	337,781,675	97,082,113
Total long-term liabilities, excluding net pension liabilities and severance benefits payable	(402,577,569)	(423,535,693)	(20,958,124)
Net pension related liabilities	(104,268,057)	(86,427,441)	17,840,616
Accrued interest payable	(4,582,403)	(5,361,033)	(778,630)
Other	4,023,077	3,995,859	(27,218)
Total net position – governmental activities	<u>\$ (41,699,497)</u>	<u>\$ (14,028,259)</u>	<u>\$ 27,671,238</u>
Net position			
Net investment in capital assets	\$ 27,685,397	\$ 43,576,487	\$ 15,891,090
Restricted	20,465,027	18,595,309	(1,869,718)
Unrestricted	<u>(89,849,921)</u>	<u>(76,200,055)</u>	<u>13,649,866</u>
Total net position	<u>\$ (41,699,497)</u>	<u>\$ (14,028,259)</u>	<u>\$ 27,671,238</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 severance payable, net pension, and net OPEB liabilities.

The change in net investments in capital assets typically depends on the relationship between the rate at which the District is adding additional capital assets, the rate capital assets are being depreciated, and how that compares to the rate at which the District is repaying the debt issued to purchase or construct those assets. The increase in the current year is also due to facility-related levies, which have allowed the District to undertake improvement projects without additional debt.

The decline in restricted net position is mostly related to amounts restricted for food service, community service, and debt service.

The decline in the General Fund balance and the internal service fund net position offset by the change in the District's share of the Public Employees Retirement Association and the Teachers Retirement Association pension plans attributed to much of the change in unrestricted net position.

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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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