

Management Report

for

Independent School District No. 16  
Spring Lake Park, Minnesota

June 30, 2023

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PRINCIPALS

Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA/CMA  
Jaclyn M. Huegel, CPA  
Kalen T. Karnowski, CPA

To the School Board and Management of  
Independent School District No. 16  
Spring Lake Park, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 16'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 who have 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 12, 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, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)***

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, *Government Auditing Standards*, and the Uniform Guidance, 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.

### **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.
- We reported no deficiencies in the District's internal control over financial reporting that we consider 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 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 that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- The results of our tests indicate that the District has complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.
- We reported no deficiencies in the District's internal controls over compliance that we considered to be material weaknesses with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.
- 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.

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 Minnesota Department of Education (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 Governmental Accounting Standards Board (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 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 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 corrected by management were material, either individually or 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 12, 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 supplements 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 Schedule of Expenditures of Federal Awards and the Uniform Financial Accounting and Reporting Standards 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.



## 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.

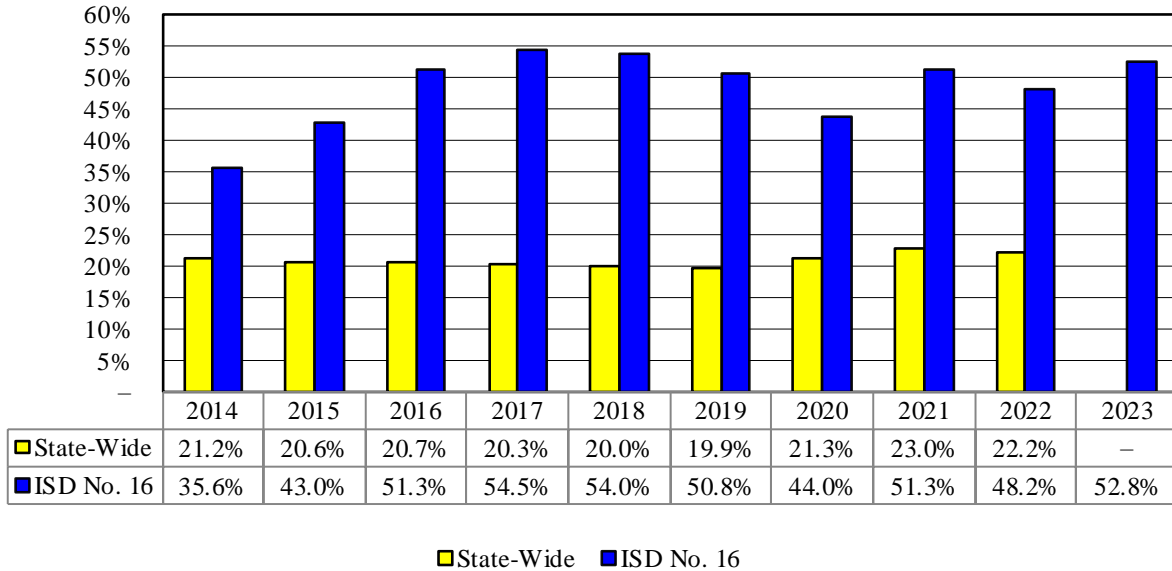
Fiscal Year Ended June 30,	Formula Allowance	
	Amount	Percent Increase
2014	\$ 5,302	1.50 %
2015	\$ 5,831	2.00 %
2016	\$ 5,948	2.00 %
2017	\$ 6,067	2.00 %
2018	\$ 6,188	2.00 %
2019	\$ 6,312	2.00 %
2020	\$ 6,438	2.00 %
2021	\$ 6,567	2.00 %
2022	\$ 6,728	2.45 %
2023	\$ 6,863	2.00 %
2024	\$ 7,138	4.00 %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

State-Wide 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 52.8 percent at the end of the current year, as compared to 48.2 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.

<b>Governmental Funds Revenue per Student (ADM) Served</b>								
	State-Wide		Metro Area		ISD No. 16 – Spring Lake Park			
	2021	2022	2021	2022	2021	2022	2023	
<b>General Fund</b>								
Property taxes	\$ 2,576	\$ 2,645	\$ 3,411	\$ 3,506	\$ 2,164	\$ 2,245	\$ 2,221	
Other local sources	438	571	323	446	165	205	455	
State	10,514	10,504	10,517	10,536	9,823	9,861	10,362	
Federal	992	1,335	956	1,397	689	853	725	
Total General Fund	<u>14,520</u>	<u>15,055</u>	<u>15,207</u>	<u>15,885</u>	<u>12,841</u>	<u>13,164</u>	<u>13,763</u>	
<b>Special revenue funds</b>								
Food Service	576	803	568	770	360	703	625	
Community Service	612	731	684	836	505	680	688	
Debt Service Fund	<u>1,512</u>	<u>1,508</u>	<u>1,549</u>	<u>1,537</u>	<u>1,663</u>	<u>1,615</u>	<u>1,675</u>	
Total revenue	<u>\$ 17,220</u>	<u>\$ 18,097</u>	<u>\$ 18,008</u>	<u>\$ 19,028</u>	<u>\$ 15,369</u>	<u>\$ 16,162</u>	<u>\$ 16,751</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>6,060</u>	<u>6,060</u>	<u>5,980</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 is 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’s revenues per ADM have been below both the metro area and state-wide averages in recent years.

The District earned \$100,168,912 in the governmental funds reflected above in fiscal 2023, an increase of \$2,225,504 (2.3 percent) from the prior year. Total revenue per ADM served increased by \$589 (3.6 percent) per student. The increase was primarily due to an increase in funding within the General Fund. State sources were up with the increase in the basic formula allowance as discussed earlier and improved funding for state special education. Other local sources in the General Fund increased over the prior year, largely due to more investment earnings. Food service revenues were down with the end of the federal program that provided free meals for all students in the prior year. Debt Service Fund revenues were up in the current year, largely due to an increase in investment earnings.

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.

<b>Governmental Funds Expenditures per Student (ADM) Served</b>							
	State-Wide		Metro Area		ISD No. 16 – Spring Lake Park		
	2021	2022	2021	2022	2021	2022	2023
<b>General Fund</b>							
Administration and district support	\$ 1,184	\$ 1,249	\$ 1,205	\$ 1,300	\$ 756	\$ 771	\$ 829
Elementary and secondary							
regular instruction	6,198	6,494	6,527	6,838	5,305	5,584	5,482
Vocational education instruction	197	210	179	191	68	83	85
Special education instruction	2,626	2,724	2,792	2,883	2,107	2,217	2,347
Instructional support services	812	816	917	939	963	990	1,131
Pupil support services	1,228	1,429	1,285	1,558	1,180	1,433	1,513
Sites, buildings, and other	1,083	1,113	1,052	1,076	1,126	1,187	1,201
Total General Fund – noncapital	13,328	14,035	13,957	14,785	11,505	12,265	12,588
General Fund capital expenditures	793	876	815	897	310	669	487
Total General Fund	14,121	14,911	14,772	15,682	11,815	12,934	13,075
<b>Special revenue funds</b>							
Food Service	532	670	522	659	401	550	594
Community Service	610	689	682	774	589	668	681
Debt Service Fund	1,576	1,599	1,609	1,561	1,658	1,658	1,681
Total expenditures	<u>\$ 16,839</u>	<u>\$ 17,869</u>	<u>\$ 17,585</u>	<u>\$ 18,676</u>	<u>\$ 14,463</u>	<u>\$ 15,810</u>	<u>\$ 16,031</u>
ADM served per MDE School District Profiles Report (current year estimated)					<u>6,060</u>	<u>6,060</u>	<u>5,980</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’s expenditures per ADM have also been below the averages presented above in recent years.

The District spent \$95,861,473 in the governmental funds reflected above in fiscal 2023, an increase of \$59,951 (0.1 percent) from the prior year. On a per student basis, with declining enrollment, this represents an increase of \$221. General Fund operating expenditures (excluding capital) increased \$323 per student, mainly in instructional support (\$141 per student), special education instruction (\$130 per student) and pupil support services (\$80 per student). General Fund capital expenditures decreased \$182 per student, with less spending on related building improvements being financed with long-term facilities maintenance and General Fund resources in the current year. Food Service Special Revenue Fund spending was up, with increases in supplies and materials and more capital outlay in the current year.

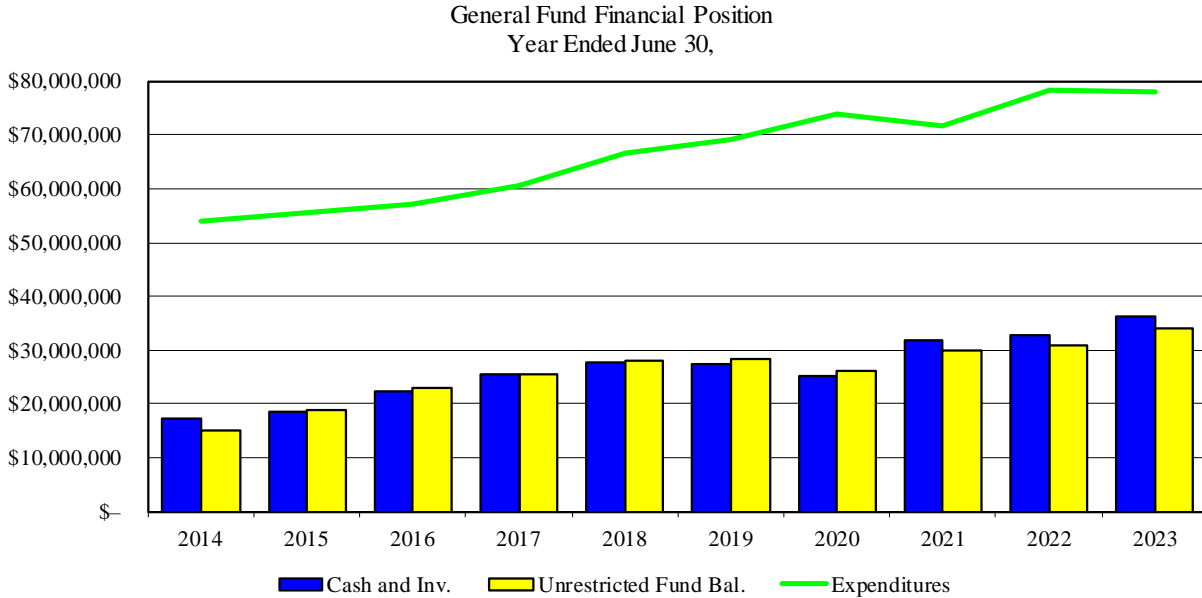
## SUMMARY

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 of \$36,334,349 (net of borrowing), an increase of \$3,461,453 from the previous year. Unrestricted fund balance (consisting of assigned and unassigned fund balances) at year-end totaled \$33,917,201, an increase of \$3,035,390.

Total fund balance of the General Fund increased by \$4,207,370, compared to a fund balance reduction of \$63,445 approved in the final budget.

## GENERAL FUND COMPONENTS OF FUND BALANCE

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

	June 30,				
	2019	2020	2021	2022	2023
Nonspendable fund balances	\$ 335,924	\$ 215,706	\$ 373,925	\$ 435,647	\$ 319,201
Restricted fund balances (1)	1,269,404	1,584,601	2,839,254	4,421,595	5,710,021
Unrestricted fund balances					
Assigned	9,818,292	3,676,815	3,890,939	8,320,000	14,328,713
Unassigned	18,539,896	22,350,328	26,189,279	22,561,811	19,588,488
Total fund balance	<u>\$ 29,963,516</u>	<u>\$ 27,827,450</u>	<u>\$ 33,293,397</u>	<u>\$ 35,739,053</u>	<u>\$ 39,946,423</u>
Unrestricted fund balances as a percentage of expenditures	<u>41.1%</u>	<u>35.2%</u>	<u>42.0%</u>	<u>39.4%</u>	<u>43.4%</u>
Unassigned fund balances as a percentage of expenditures	<u>26.8%</u>	<u>30.2%</u>	<u>36.6%</u>	<u>28.8%</u>	<u>25.1%</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.

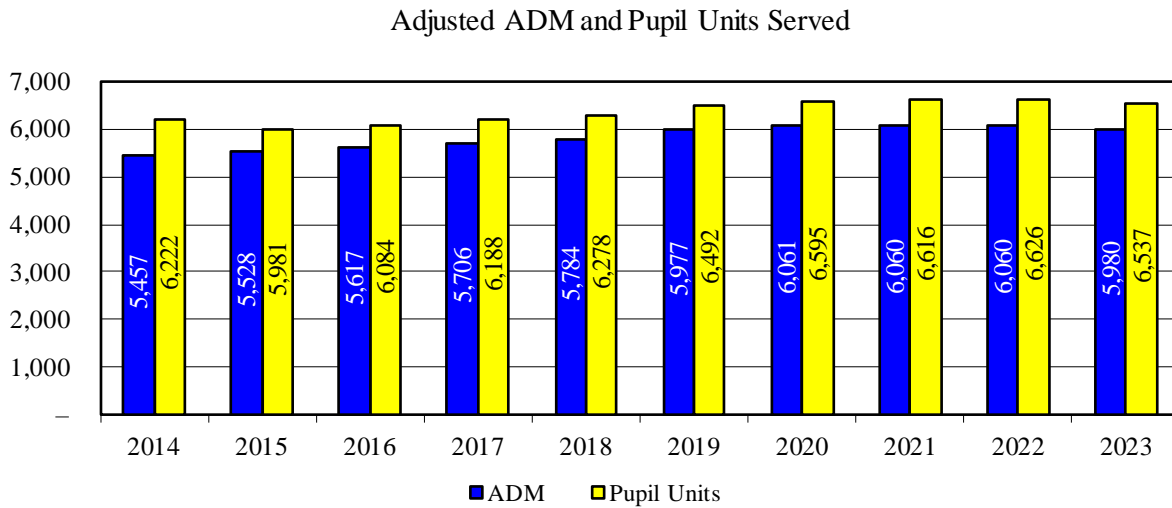
At June 30, 2023, unrestricted fund balance in the General Fund represented 43.4 percent of annual expenditures, or approximately 23 weeks of operations assuming level spending throughout the year.

### Minimum Fund Balance Policy

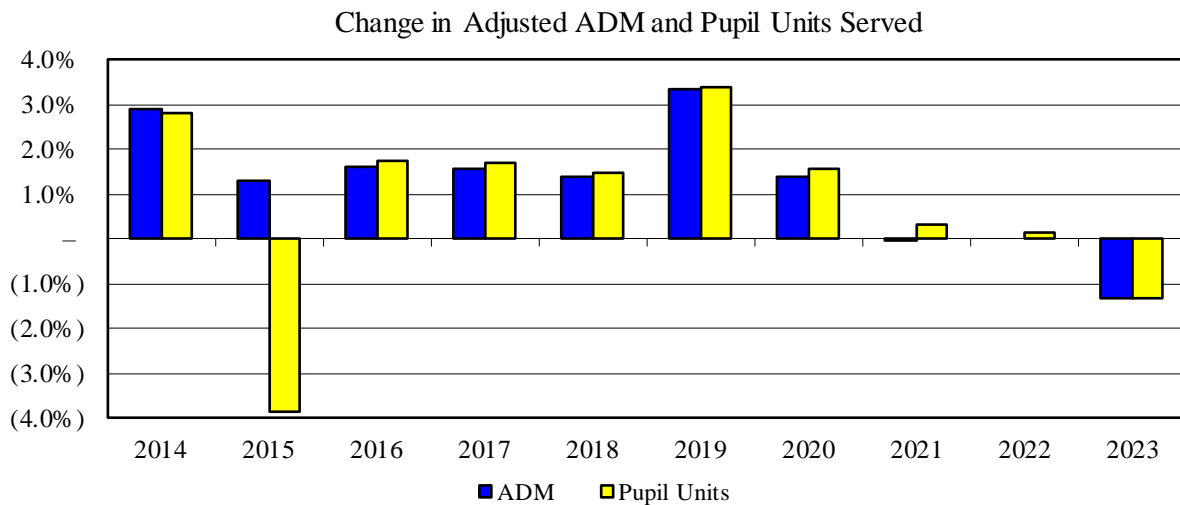
The District's fund balance policy is to strive to maintain a minimum unassigned General Fund balance of no less than two months of General Fund operating expenditures. At June 30, 2023, the District has continued to meet this goal as defined by the fund balance policy.

## 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:



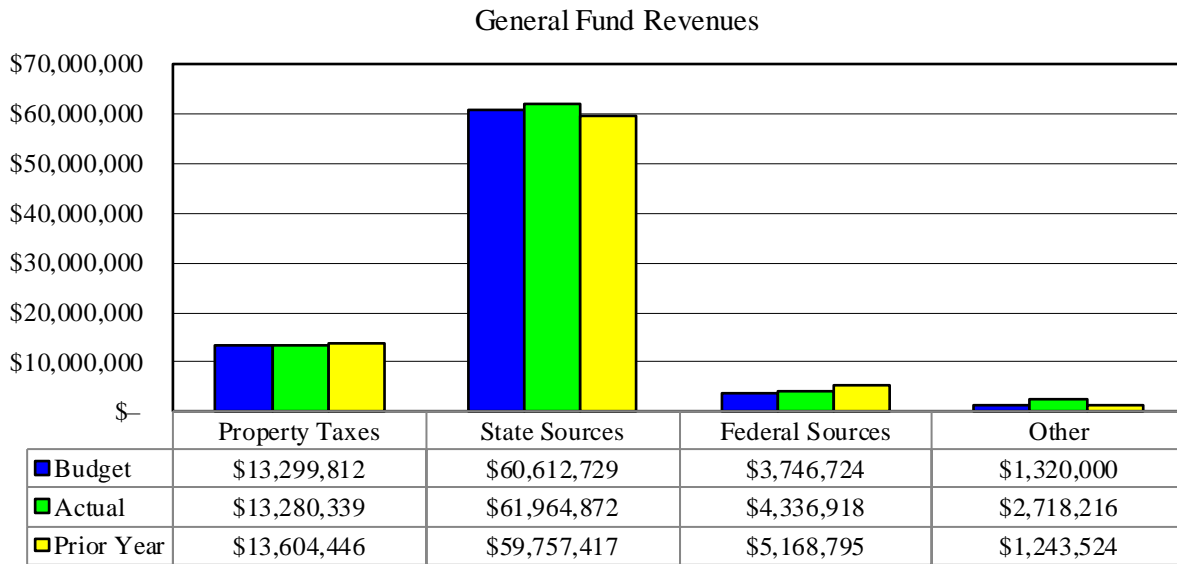
Note: The change in pupil units for 2015 includes the effect of legislative reductions to pupil units.

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 adjusted ADM of 5,980 in 2023, which is a decrease of 80 from the previous year. The number of resulting pupil units served by the District for fiscal 2023 was 6,537, a decrease of 89 (1.3 percent) from the prior year.

## GENERAL FUND REVENUES

The following graph presents the District’s General Fund revenues for 2023:



Total General Fund revenues were \$82,300,345 for the year ended June 30, 2023, which was \$3,321,080 (4.2 percent) over the final budget and \$2,526,163 (3.2 percent) more than the prior year.

As presented in the graph above, revenues were over budget in nearly each category presented other than property taxes, which were \$19,473 under budget. State sources were over budget, due to conservative budgeting for student enrollment and special education funding. Federal sources exceeded expectations, due to the District recognizing additional COVID-related grants that were not included in the budget. Conservative budgeting for investment earnings and other fees contributed to revenues exceeding anticipated amounts in the “Other” category above.

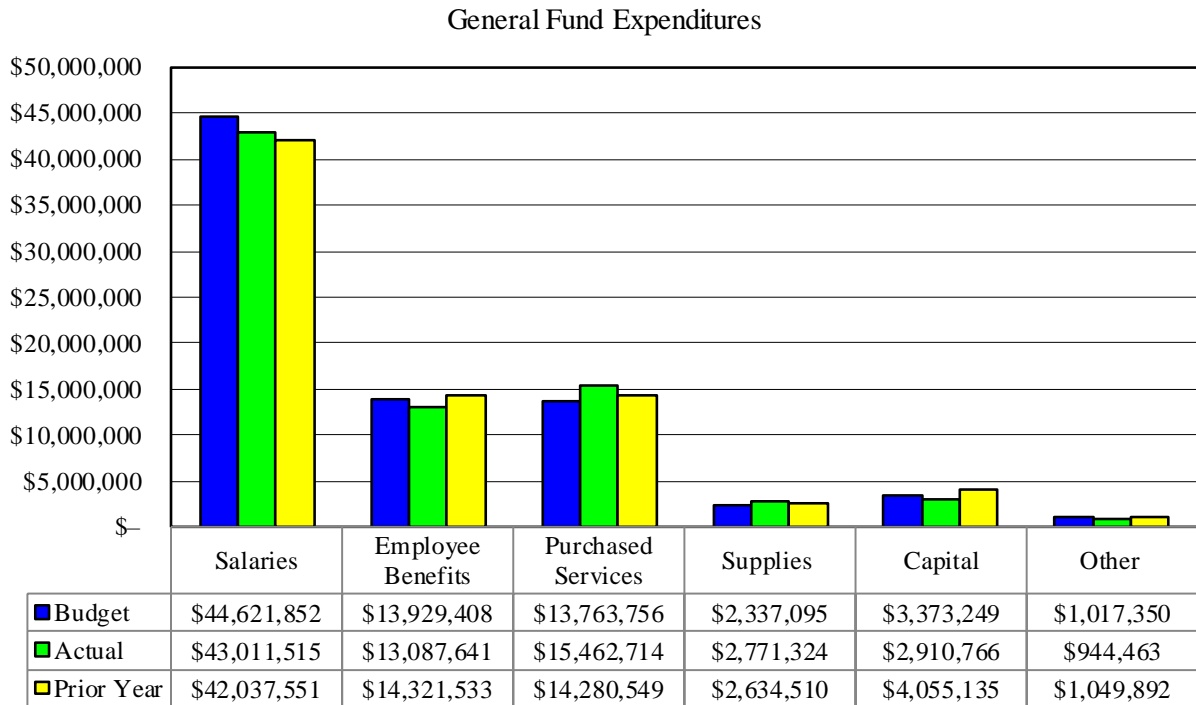
Revenues increased over the prior year with more in state sources and other revenues. Funding improvements for general education and special education contributed to the change in state sources. Other revenues with up with improved investment earnings in the current year.

The graph above reflects the concentration of state sources (75.3 percent), followed by property taxes (16.1 percent) recognized 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 \$78,188,423 for the year ended June 30, 2023, which was \$854,287 (1.1 percent) under the final budget and \$190,747 (0.2 percent) less than the prior year.

Salary and benefit-related charges, which account for 71.7 percent of General Fund expenditures, decreased by \$259,928 (0.5 percent) and were \$2,452,104 (4.2 percent) under amounts planned in the budget. Conservative budgeting, attrition, and difficulty filling open positions contributed to salaries and benefits ending the year less than projected.

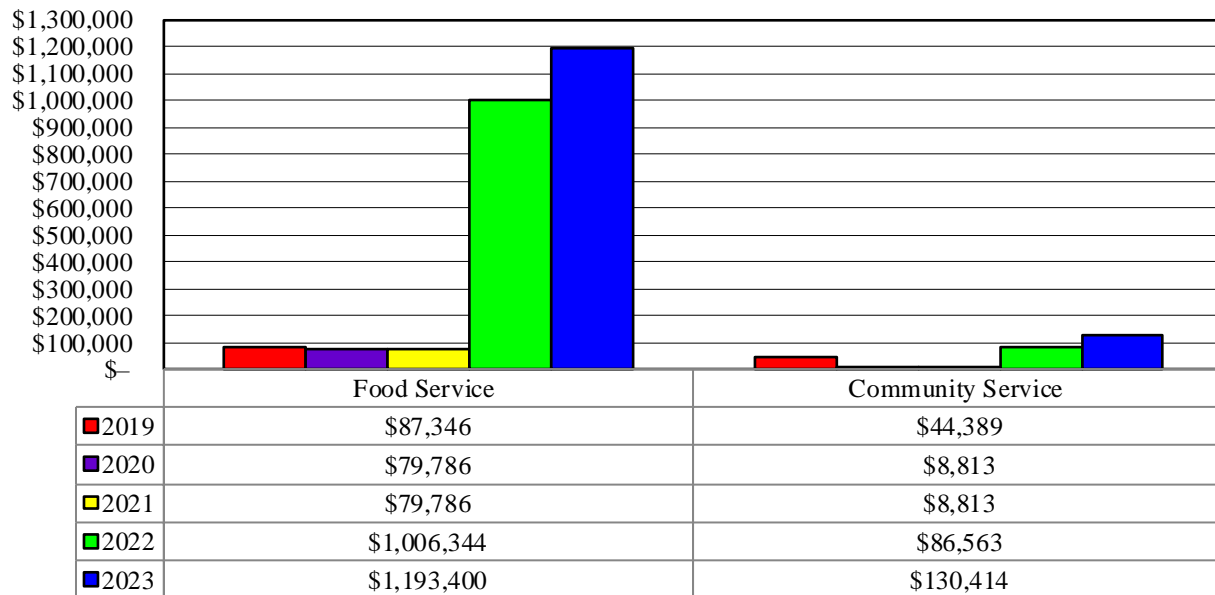
Spending in purchased services exceeded budget by \$1,698,958 and was \$1,182,165 more than the amount spent in the prior year. The variance to budget and increase over the prior year was largely in programs areas of elementary and secondary regular instruction, special education instruction, and pupil support services.

Capital spending was under budget, largely due to the timing of expenditures for long-term facilities maintenance projects in the current year, and was down compared to the prior year with more investments for capital in the prior year.

## 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.

Other Operating Funds  
Total Fund Balances



### Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund reported a fund balance increase of \$187,056 over the prior year, compared to a budgeted decrease of \$200,000. Food Service Special Revenue Fund revenue sources were \$338,762 over budget, while expenditures were under budget by \$48,294. The Food Service Special Revenue Fund had a year-end fund balance of \$1,193,400, representing 33.6 percent of annual expenditures. Revenues were over budget with more investment earnings and federal sources, largely due to conservative budgeting. Expenditures were under budget with less capital spending than planned in the budget.

### Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund reported an increase in fund balance of \$43,851 over the prior year, compared to a balanced budget. Revenues were \$363,345 over budget and expenditures were over budget by \$319,494. The Community Service Special Revenue Fund had a year-end fund balance of \$130,414, representing 3.2 percent of annual expenditures. Conservative budgeting for program participation levels contributed to the variances to projected amounts, while activity levels remained fairly consistent with the prior year.

It is critical that Food Service and Community Service Special Revenue Funds be self-sustaining, so as not to place additional burden on General Fund operations. As the graph above indicates, the District has improved the fiscal health of these two funds in the past two years, which have also assisted in funding several capital improvements to the respective programs in recent years. The District should review upcoming capital needs of the child nutrition and community service operations and incorporate that information in establishing an optimal level of fund balance that is also within state and federal fund balance limits.

## Debt Service Fund

Total Debt Service Fund expenditures exceeded revenues by \$44,781 in the current year, compared to a decrease of \$71,924 approved in the final budget.

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 dedicated to payment of outstanding debt obligations of the District.

## Proprietary Funds – Internal Service Funds

The District uses internal service funds to account for health and dental insurance offered by the District to its employees as self-insured plans. The following table presents the combined activity reported for the past three fiscal years for the internal service funds:

	June 30,		
	2021	2022	2023
Operating revenue			
Charges for services	\$ 6,352,861	\$ 6,410,605	\$ 6,324,692
Operating expenses			
Health benefit claims	5,222,325	5,772,963	5,909,967
Dental benefit claims	503,229	522,255	525,795
Total operating expenses	<u>5,725,554</u>	<u>6,295,218</u>	<u>6,435,762</u>
Operating income	627,307	115,387	(111,070)
Nonoperating revenue			
Investment earnings (charges)	<u>10,935</u>	<u>(23,557)</u>	<u>172,864</u>
Change in net position	638,242	91,830	61,794
Net position			
Beginning of year	<u>5,395,307</u>	<u>6,033,549</u>	<u>6,125,379</u>
End of year	<u>\$ 6,033,549</u>	<u>\$ 6,125,379</u>	<u>\$ 6,187,173</u>

## 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 \$6,015,896 is available to pay these benefits.

## 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	\$ 43,743,777	\$ 39,350,281	\$ 4,393,496
Total capital assets, net of depreciation	135,896,498	140,959,112	(5,062,614)
Long-term liabilities, excluding pensions	(100,781,931)	(109,627,207)	8,845,276
Pension adjustments	(46,143,218)	(55,437,165)	9,293,947
OPEB adjustments	(455,660)	8,984	(464,644)
Other adjustments	5,047,646	4,749,353	298,293
Total net position – governmental activities	<u>\$ 37,307,112</u>	<u>\$ 20,003,358</u>	<u>\$ 17,303,754</u>
Net position			
Net investment in capital assets	\$ 36,419,038	\$ 33,862,306	\$ 2,556,732
Restricted	8,244,113	6,592,612	1,651,501
Unrestricted	<u>(7,356,039)</u>	<u>(20,451,560)</u>	<u>13,095,521</u>
Total net position	<u>\$ 37,307,112</u>	<u>\$ 20,003,358</u>	<u>\$ 17,303,754</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 obligations.

Total net position increased by \$17,303,754 during fiscal 2023. The District's net investment in capital assets increased \$2,556,732 this year. The change in this category of net position typically depends on the relationship of the rate at which the District is adding additional capital assets, the rate capital assets are being depreciated, and how that relates to the rate at which the District is repaying the debt issued to purchase or construct those assets. The increases the District has seen in recent years have also been impacted by facility-related levies, which have allowed the District to undertake improvement projects without additional debt.

The change in restricted net position was due to an increase in amounts restricted for capital asset acquisition, debt service, food service, and community service. 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. The improved financial position of the General Fund and combined internal service funds, as previously discussed, also contributed to the increase in unrestricted net position.

## 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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