

Management Report

for

Independent School District No. 831
Forest Lake, Minnesota

June 30, 2024

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PRINCIPALS

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

We have prepared this management report in conjunction with our audit of Independent School District No. 831's (the District) financial statements for the year ended June 30, 2024. 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
November 25, 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, *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, 2024. 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, 2024:

- We have issued unmodified opinions on the District's basic financial statements. Our report included a paragraph emphasizing the District's implementation of new Governmental Accounting Standards Board (GASB) authoritative literature, which changed the requirements for accounting for groups of similar capital assets this year. Our opinion was not modified with respect to this matter.
- We reported no deficiencies in the District's internal control over financial reporting that we considered to be material weaknesses. It should be understood that internal controls are never perfected, and those controls which protect the District's funds from such things as fraud and accounting errors, need to be continually reviewed by your management and modified as necessary.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported 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, 2024. However, the District implemented the following GASB guidance change during the year:

As described in Note 1 of the notes to basic financial statements, the District implemented new GASB guidance related to capital assets during the fiscal year ended June 30, 2024. This new guidance requires governments to capitalize groups of similar assets if significant, even when individually they are below the government’s capitalization threshold. This change resulted in a restatement, which increased beginning net position in the government-wide Statement of Activities by \$381,466 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 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 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 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 November 25, 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, the Schedule of Expenditures of Federal Awards, and the Uniform Financial Accounting and Reporting Standards Compliance Table, accompanying the financial statements, 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 other district information, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

FINANCIAL TRENDS IN PUBLIC EDUCATION IN MINNESOTA

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

BASIC GENERAL EDUCATION REVENUE

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

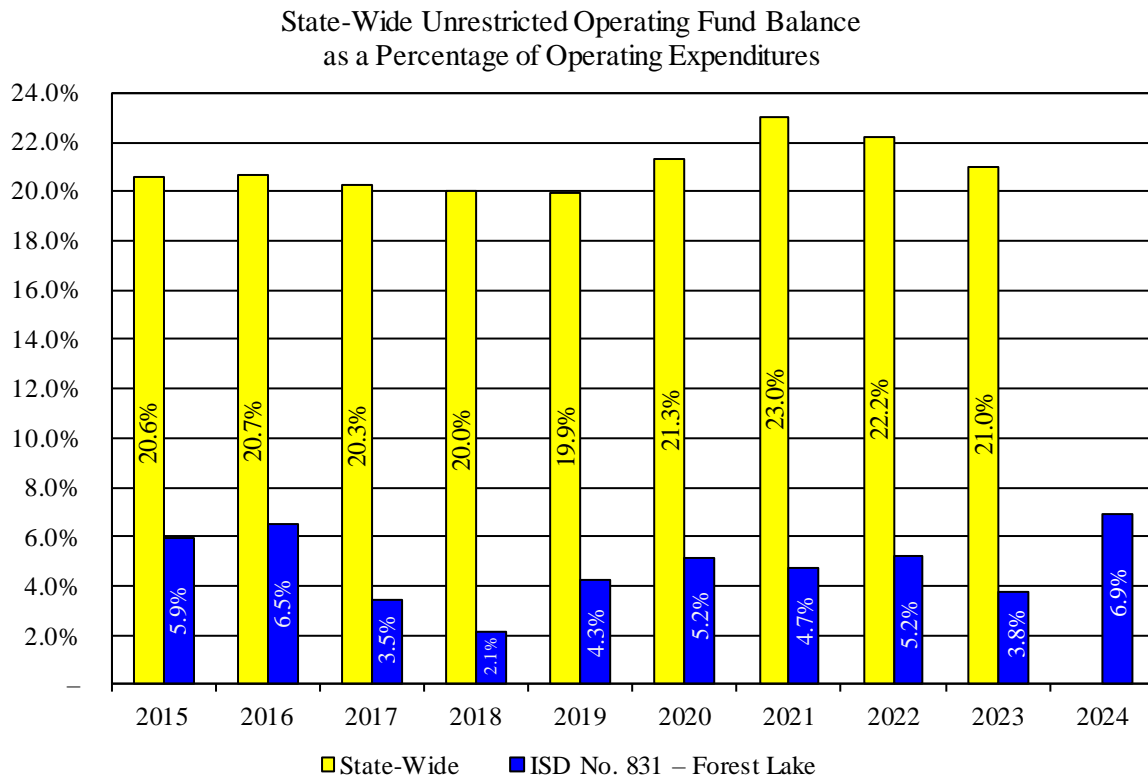
The table below presents a summary of the formula allowance for the past decade and as approved for the next fiscal year. The Legislature approved a per pupil increase of \$143 for fiscal 2025. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the “roll-in” of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual districts.

Fiscal Year Ended June 30,	Formula Allowance	
	Amount	Percent Increase
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 2024.

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 has been relatively stable over the last decade, ranging from 20.6 percent at the end of fiscal 2015 to 21.0 percent at the end of fiscal 2023, with a slight uptick during the fiscal years impacted by the COVID-19 pandemic.

As of June 30, 2023, this ratio was 3.8 percent for the District, as compared to a state-wide average of 21.0 percent. The District's unrestricted operating fund balance as a percentage of operating expenditures was 6.9 percent at the end of the current year.

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

GOVERNMENTAL FUNDS REVENUE

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

Governmental Funds Revenue per Student (ADM) Served								
	State-Wide		Metro Area		ISD No. 831 – Forest Lake			
	2022	2023	2022	2023	2022	2023	2024	
General Fund								
Property taxes	\$ 2,645	\$ 2,760	\$ 3,506	\$ 3,704	\$ 3,055	\$ 3,107	\$ 3,417	
Other local sources	571	742	446	595	549	545	594	
State	10,504	10,771	10,536	10,792	9,945	10,394	11,919	
Federal	1,335	1,344	1,397	1,441	876	637	487	
Total General Fund	<u>15,055</u>	<u>15,617</u>	<u>15,885</u>	<u>16,532</u>	<u>14,425</u>	<u>14,683</u>	<u>16,417</u>	
Special revenue funds								
Food Service	803	676	770	649	942	789	1,040	
Community Service	731	795	836	919	879	952	1,013	
Debt Service Fund	1,508	1,579	1,537	1,595	1,658	1,646	1,866	
Total revenue	<u>\$ 18,097</u>	<u>\$ 18,667</u>	<u>\$ 19,028</u>	<u>\$ 19,695</u>	<u>\$ 17,904</u>	<u>\$ 18,070</u>	<u>\$ 20,336</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>5,953</u>	<u>5,851</u>	<u>5,727</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 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 earned \$116,462,304 in the governmental funds reflected above in fiscal 2024, an increase of \$10,740,637 (10.2 percent) from the prior year. Total revenue per ADM served increased by \$2,266 (12.5 percent) per student. The increase was spread across most sources presented in the above table. Property taxes were up as approved through the annual tax levy process. Other local sources increased over the prior year, largely due to more investment earnings. State sources were up with growth in the basic formula allowance, along with added funding for basic skills and special education programming. Federal revenues in the General Fund were down slightly with the final spending and the end of several COVID-19 pandemic-related entitlements. Food service revenues were up with state legislative changes effective in the current year to provide free meals for all students. Increased programming and participation contributed to the additional funding in the Community Service Special Revenue Fund. Debt Service Fund revenue per capita was up in the current year, due to an increase in property taxes to support debt financing of regular debt service.

GOVERNMENTAL FUNDS EXPENDITURES

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

Governmental Funds Expenditures per Student (ADM) Served							
	State-Wide		Metro Area		ISD No. 831 – Forest Lake		
	2022	2023	2022	2023	2022	2023	2024
General Fund							
Administration and district support	\$ 1,249	\$ 1,300	\$ 1,300	\$ 1,320	\$ 1,122	\$ 1,194	\$ 1,294
Elementary and secondary regular instruction	6,494	6,646	6,838	7,019	5,051	5,054	5,283
Vocational education instruction	210	224	191	198	235	250	251
Special education instruction	2,724	2,892	2,883	3,059	2,538	2,743	3,069
Instructional support services	816	861	939	1,030	1,140	1,142	1,166
Pupil support services	1,429	1,553	1,558	1,712	1,682	1,904	2,090
Sites, buildings, and other	1,113	1,201	1,076	1,171	1,887	1,816	1,871
Total General Fund – noncapital	14,035	14,677	14,785	15,509	13,655	14,103	15,024
General Fund capital expenditures	876	960	897	959	1,321	1,162	387
Total General Fund	14,911	15,637	15,682	16,468	14,976	15,265	15,411
Special revenue funds							
Food Service	670	706	659	693	753	856	956
Community Service	689	763	774	865	821	894	987
Debt Service Fund	1,599	1,626	1,561	1,652	1,597	1,641	1,739
Total expenditures	<u>\$ 17,869</u>	<u>\$ 18,732</u>	<u>\$ 18,676</u>	<u>\$ 19,678</u>	<u>\$ 18,147</u>	<u>\$ 18,656</u>	<u>\$ 19,093</u>
ADM served per MDE School District Profiles Report (current year estimated)					<u>5,953</u>	<u>5,851</u>	<u>5,727</u>
Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.							
Source of state-wide and metro area data: School District Profiles Report published by the MDE							

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

The District spent \$109,344,591 in the governmental funds reflected above in fiscal 2024, an increase of \$190,887 (0.2 percent) from the prior year. On a per student basis, this represents an increase of \$437 (2.3 percent). The increase was spread across most categories, as noted in the table above, with the largest changes in special education instruction (\$326 per student), elementary and secondary regular instruction (\$229 per student), and pupil support services (\$186 per student). Spending was up in the General Fund as planned in the budget, mainly in salaries and benefits due to negotiated contract changes, inflationary increases, and increased transportation costs. General Fund capital expenditures decreased, due to decreased long-term facilities maintenance projects and fewer equipment leases issued and recognized in the current year. Consistent with the revenue increase discussed on the previous page, spending was up with more participation in food service and community service. Debt service increased as anticipated in approved debt financing plans.

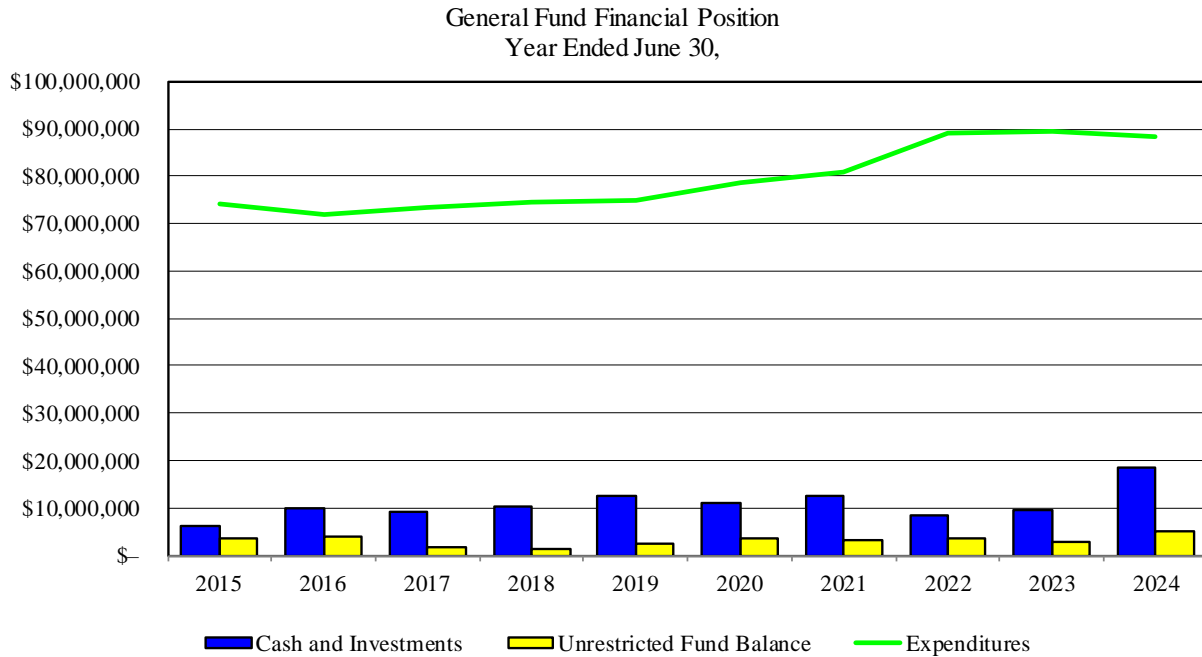
SUMMARY

District school boards and administrators continue to face significant financial challenges as they strive to provide a safe and effective learning environment for their students. Factors such as the sunset of large pandemic-related federal funding programs, state legislative funding changes and mandates, shifting student populations, tight labor markets, heightened safety concerns, increasing transportation costs, and other inflationary pressures continue to make it difficult to allocate limited resources amongst many competing demands.

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 2024 with a General Fund cash and investments balance (net of borrowing) of \$18,677,527, an increase of \$9,292,699 from the previous year. The unrestricted fund balance in the General Fund at year-end (excluding restricted fund balance deficits) was \$5,182,688, an increase of \$2,506,318.

GENERAL FUND COMPONENTS OF FUND BALANCE

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

	June 30,				
	2020	2021	2022	2023	2024
Nonspendable fund balances	\$ 37,519	\$ 146,426	\$ 125,360	\$ 200,185	\$ 171,690
Restricted fund balances (1)	(817,251)	(420,040)	(1,991,897)	(2,514,180)	2,229,458
Unrestricted fund balances					
Assigned	475,778	451,669	250,117	195,749	177,488
Unassigned	2,951,198	2,715,968	3,460,731	2,480,621	5,005,200
Total fund balance	\$ 2,647,244	\$ 2,894,023	\$ 1,844,311	\$ 362,375	\$ 7,583,836
Unrestricted fund balances as a percentage of expenditures	<u>4.3%</u>	<u>3.9%</u>	<u>4.2%</u>	<u>3.0%</u>	<u>5.9%</u>
Unassigned fund balances as a percentage of expenditures	<u>3.7%</u>	<u>3.4%</u>	<u>3.9%</u>	<u>2.8%</u>	<u>5.7%</u>
(1) Includes deficits in restricted fund balance accounts allowed to accumulate deficits under UFARS, which are part of unassigned fund balance on the accounting principles generally accepted in the United States of America-based financial statements.					

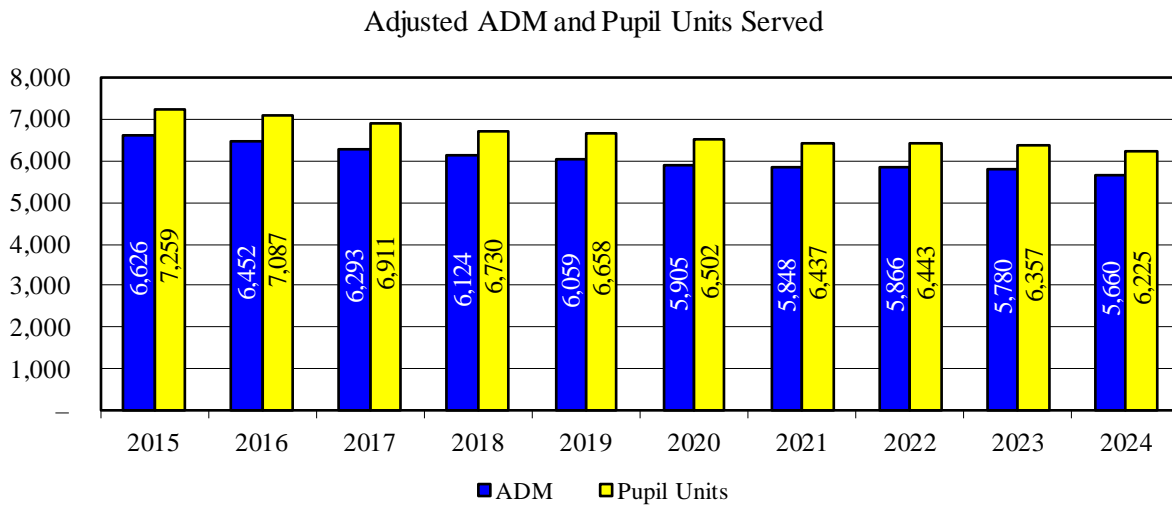
The table above reflects the total General Fund unrestricted fund balance and percentages, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula. The resources represented by this fund balance are critical to a district's ability to maintain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

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

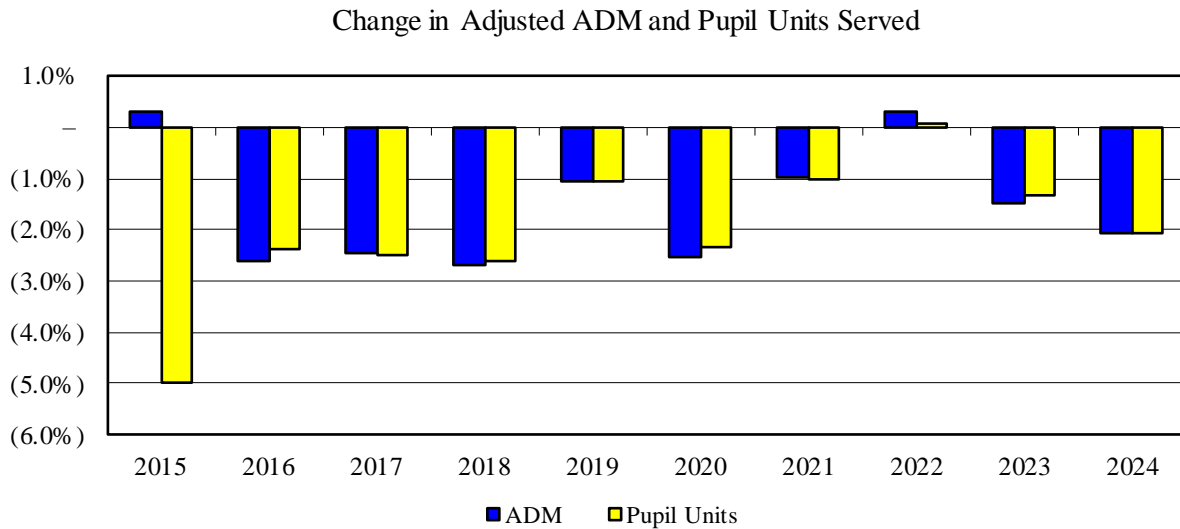
At June 30, 2024, unrestricted fund balance in the General Fund represented 5.9 percent of annual expenditures, or approximately 3 weeks of operations assuming level spending throughout the year.

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

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



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



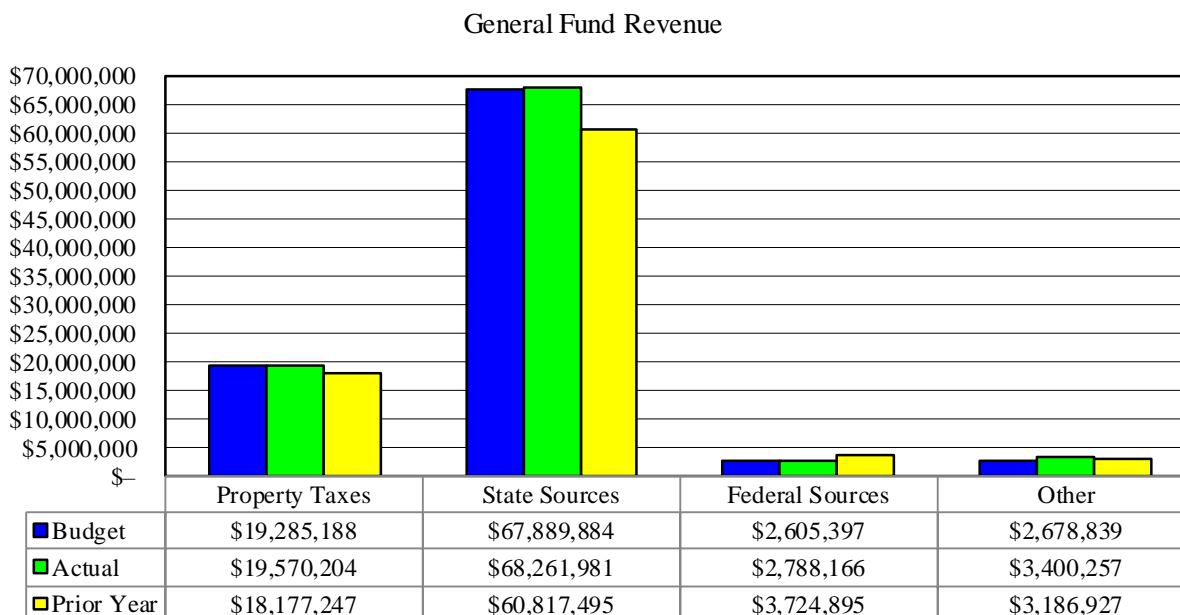
The change in pupil units for 2015 includes the effect of legislative reductions to pupil units.

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

The District served an estimated ADM of 5,660, a decrease of 120 ADM, or 2.1 percent, from the prior year. The number of pupil units served by the District for fiscal 2024 was 6,225, a decrease of 132 (2.1 percent) from the prior year.

GENERAL FUND REVENUES

The following graph presents the District's General Fund revenue for 2024:



Total General Fund revenues were \$94,020,608 for the year ended June 30, 2024, which was \$1,561,300 (1.7 percent) over the final budget and \$8,114,044 more than the prior year.

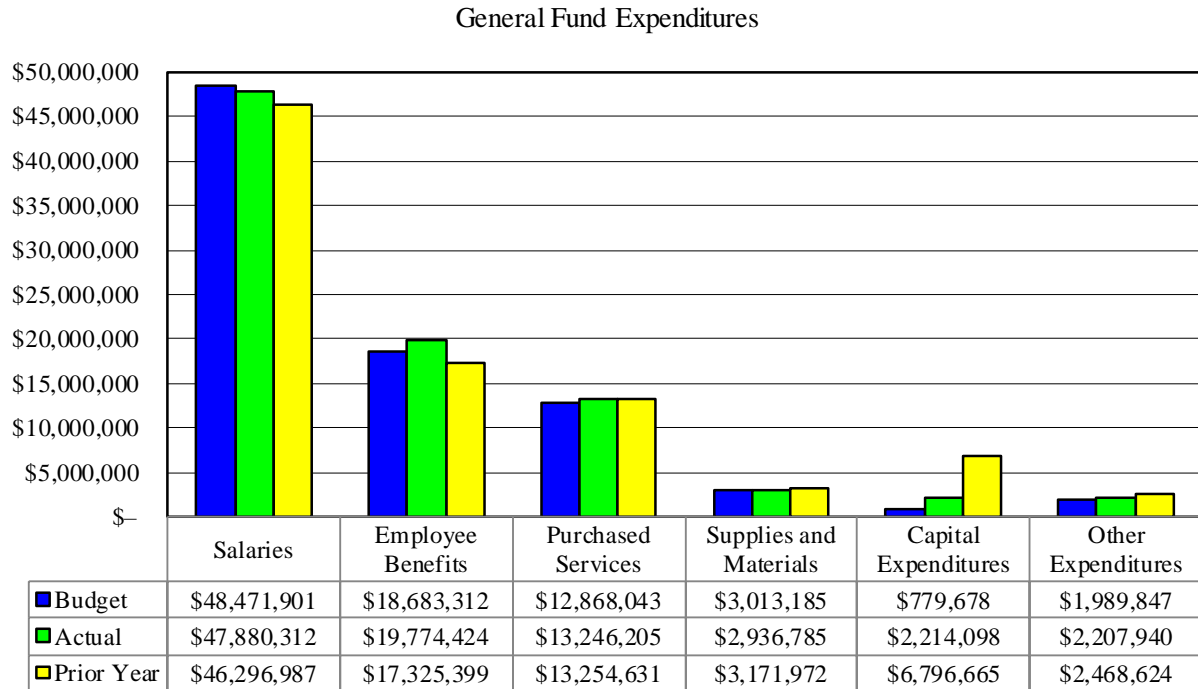
The variance to budget was spread across all sources, with the largest variances in other local sources and state sources, which were \$721,418, and \$372,097 over budget, respectively. Other local revenue as shown above, which includes investment earnings, donations, and athletic fees and concessions, exceeded budget, mainly due to conservative budgeting for these inconsistent revenues. State sources were over budget, mainly in special education aid.

The District reported revenue increases over the prior year in property taxes, state, and other local sources. An increase in the School Board-approved levy contributed to the growth in property taxes in the current year. State sources were up due to funding improvements in basic skills, general education, and special education funding formulas. The increase in other revenues was directly related to the improved investment earnings recognized by the District in fiscal 2024. Federal revenues were down as anticipated in the budget with the final spending and the end of several COVID-19 pandemic-related entitlements.

The graph above reflects the concentration of state sources (72.6 percent), followed by property taxes (20.8 percent) received to finance General Fund operations.

GENERAL FUND EXPENDITURES

The following graph presents the District's General Fund expenditures for 2024:



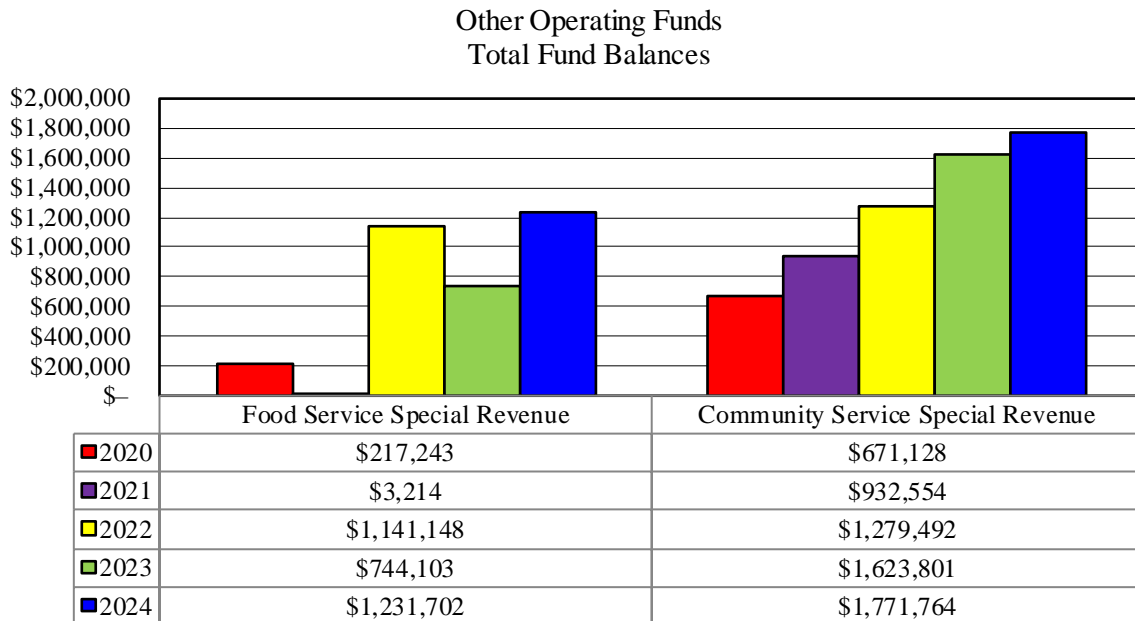
Total General Fund expenditures were \$88,259,764 for the year ended June 30, 2024, which was \$2,453,798 (2.9 percent) over the final budget and \$1,054,514 (1.2 percent) less than the prior year.

The variance to budget was spread across several categories as noted above, with the largest variance in employee benefits and capital expenditures. Employee benefits were \$1,091,112 over budget, mainly in health insurance costs. Capital expenditures were \$1,434,420 over budget, due to new leases recognized in the current year that were not included in the budget.

The decrease from the prior year was mainly in capital expenditures offset by an increase in salaries and employee benefits. Capital expenditures decreased \$4,582,567 from the prior year, due to the timing of long-term facilities maintenance projects and fewer equipment leases issued and recognized in the current year. This decrease was offset by an increase in salaries and employee benefits, due to negotiated contract changes and increased health insurance 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 equity increased \$487,599 in 2024, compared to a planned increase of \$197,636. Revenues were \$516,735 over budget, mainly in federal and state sources, while expenditures were \$220,721 over budget, primarily in supplies and materials. Changes approved by the State Legislature to provide free meals to all students added to the difficulty in projecting participation levels in the current year. The Food Service Special Revenue Fund had a year-end fund balance of \$1,231,702, representing 22.5 percent of annual expenditures totaling \$5,472,513.

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

COMMUNITY SERVICE SPECIAL REVENUE FUND

The District's Community Service Special Revenue Fund equity increased \$147,963 in 2024, compared to a budgeted decrease of \$261,700. Revenues were \$240,355 over budget, mainly in state sources and investment earnings, due to conservative budgeting. Expenditures were under budget by \$169,308, mainly in salaries and employee benefits. The Community Service Special Revenue Fund had a year-end fund balance of \$1,771,764, representing 31.3 percent of annual expenditures totaling \$5,653,637.

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

CAPITAL PROJECTS – BUILDING CONSTRUCTION FUND

The Capital Projects – Building Construction Fund ended the year with an increase in fund balance of \$16,047,545, compared to a \$15,000,000 increase anticipated in the budget. The increase is due to the issuance of bonds to finance the acquisition and betterment of school sites and facilities. At year-end, the District reported a fund balance of \$15,781,669 restricted for long-term facilities maintenance.

DEBT SERVICE FUND

The funding of debt service is controlled in accordance with each outstanding debt issue’s financing plan. It is important to remember that resources of the Debt Service Fund are restricted to the payment of outstanding debt obligations of the District. As of June 30, 2024, the District has \$3,899,078 available for future debt service.

INTERNAL SERVICE FUNDS

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

The internal service funds had a net position deficit as of June 30, 2024 of \$2,297,976. The Health Benefits Self-Insurance Fund had a net position deficit at year-end of \$2,725,374, which represents a decrease of \$264,953 from the prior year, mainly due to health benefit claims in the current year exceeding premiums collected. The Dental Benefits Self-Insurance Fund ended the year with a net position of \$427,398, an increase of \$22,928 from the prior year.

We believe it is important that the District monitor on an ongoing basis the financial operations of the Health Benefits Self-Insurance Fund. We further recommend that the District continue to review health insurance premiums being charged and have a plan to eliminate this deficit balance as internal service funds should be self-sustaining and should not become an additional burden on general education funds.

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 \$365,115 is available for future OPEB payments.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

	June 30,		Change
	2024	2023	
Net position – governmental activities			
Total fund balances – governmental funds	\$ 30,268,049	\$ 4,469,434	\$ 25,798,615
Total capital assets, net of depreciation/amortization	203,247,283	207,515,602	(4,268,319)
Total long-term debt (without pensions and OPEB)	(181,137,750)	(167,656,446)	(13,481,304)
Pension adjustments	(48,513,268)	(55,080,053)	6,566,785
OPEB adjustments	(9,846,419)	(9,954,443)	108,024
Other adjustments	(4,454,258)	(3,814,794)	(639,464)
Total net position – governmental activities	<u><u>\$ (10,436,363)</u></u>	<u><u>\$ (24,520,700)</u></u>	<u><u>\$ 14,084,337</u></u>
Net position			
Net investment in capital assets	\$ 42,516,961	\$ 44,945,857	\$ (2,428,896)
Restricted	6,614,156	2,566,827	4,047,329
Unrestricted	<u>(59,567,480)</u>	<u>(72,033,384)</u>	<u>12,465,904</u>
Total net position	<u><u>\$ (10,436,363)</u></u>	<u><u>\$ (24,520,700)</u></u>	<u><u>\$ 14,084,337</u></u>

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

Total net position increased by \$14,084,337 during fiscal 2024. The District's net investment in capital assets decreased \$2,428,896 this year. The change in this category of net position typically depends on the relationship between the rate at which the District is adding capital assets, the rate at which the District's capital assets are being depreciated/amortized, and how that compares to the rate at which the District is repaying the debt issued to purchase or construct those assets.

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

GASB STATEMENT NO. 102, *CERTAIN RISK DISCLOSURES*

State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This new guidance defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosures should include actions by the government to mitigate the risk. The requirements of this statement will improve financial reporting by providing users of financial statements with essential information that currently is not often provided.

The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 103, *FINANCIAL REPORTING MODEL IMPROVEMENTS*

This statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following:

- Management's discussion and analysis
- Unusual or infrequent items
- Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position
- Information about major component units in basic financial statements
- Budgetary comparison information
- Financial trends information in the statistical section

The objective of this statement is to improve key components of the financial reporting model to enhance its quality and effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.