

Management Report
for
Independent School District No. 278
Orono, Minnesota
June 30, 2025



Certified Public Accountants Business Consultants

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To the School Board and Management of
Independent School District No. 278
Orono, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 278's (the District) financial statements for the year ended June 30, 2025. We have organized this report into the following sections:

- Audit Summary
- Funding 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.

Respectfully submitted,

A handwritten signature in black ink that reads 'LB Carlson, LLP'.

LB CARLSON, LLP
Minneapolis, Minnesota

November 4, 2025

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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, 2025. 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, 2025, 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, 2025. However, issuance of the 2025 *Compliance Supplement* by the Office of Management and Budget has been delayed, and the final version is not yet issued. The 2025 *Compliance Supplement* guidance is effective for Single Audits of federal awards expenditures for the year ended June 30, 2025. Consequently, Single Audits for this period cannot be finalized until the final version of this guidance is issued. The Minnesota Department of Education (MDE) has extended the due date for Single Audits to coincide with the federal deadline of March 31, 2026. The District plans to issue its audited Schedule of Federal Awards Expenditures and related reports separately by this deadline.

AUDIT OPINIONS AND FINDINGS

Based on our audit of the District's financial statements for the year ended June 30, 2025:

- 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. 101, *Compensated Absences*, 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 no findings based on our testing of the District's compliance with Minnesota laws and regulations.

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, 2025, 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:

- Finding 2024-001 – For one of two contracts tested, the District did not obtain the required withholding affidavit prior to making the final payment to the contractor. There was no similar finding based on testing performed in the current year.

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, 2025. 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 GASB Statement No. 101, *Compensated Absences*, during fiscal year ended June 30, 2025. This standard changed the recognition and measurement of the compensated absence liability reported by the District. This change resulted in a restatement, which decreased beginning net position in the government-wide financial statements by \$1,304,684.

We noted no transactions entered into by the District during the year 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 compensated absences. Management's estimate is based on current rates of pay, unused compensated absence balances, and the likelihood compensated absences will be paid out over the course of employment or at termination.

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 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 and amortization of capital assets involves estimates pertaining to useful lives.

The District's self-insured employee health insurance 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 4, 2025.

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 and statistical sections, 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.

FUNDING PUBLIC EDUCATION IN MINNESOTA

This section provides information on some state-wide funding and financial trends for 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 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.

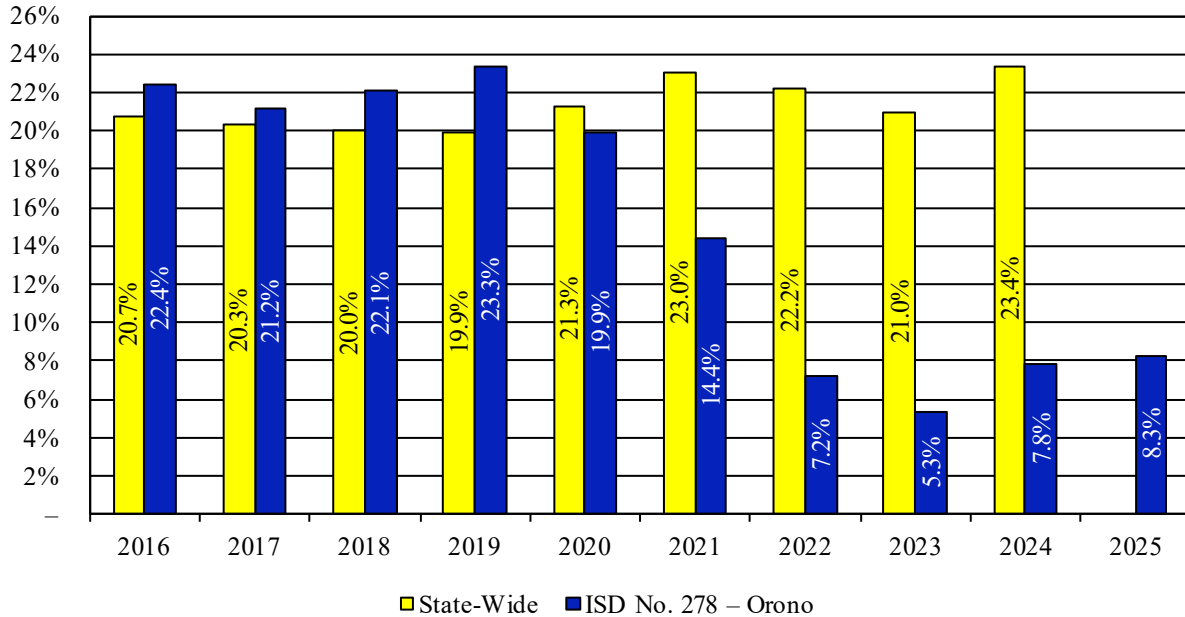
For fiscal 2026 and beyond, the annual formula increase will be adjusted for inflation, using a formula based on the Consumer Price Index-Urban (CPI-U) average inflation rate for the fourth calendar quarter of the immediately prior fiscal year compared to the average for the fourth calendar quarter of the second prior fiscal year, with a floor of 2.00 percent and a cap of 3.00 percent. This resulted in a per pupil increase to the basic formula allowance of \$200 for fiscal 2026.

Fiscal Year Ended June 30,	Formula Allowance	
	Amount	Percent Increase
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 %
2026	\$ 7,481	2.74 %

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 2025.

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 state-wide average unrestricted fund balance as a percentage of operating expenditures for Minnesota school districts has risen in recent years, fluctuating between 21.0 percent and 23.4 percent over the last five fiscal years for which data is available.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 8.3 percent at the end of the current year, as compared to 7.8 percent at June 30, 2024.

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 funds 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 Fund and the Post-Employment Benefits Debt Service Fund. 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. 278 – Orono			
	2023	2024	2023	2024	2023	2024	2025	
General Fund								
Property taxes	\$ 2,760	\$ 2,966	\$ 3,704	\$ 3,976	\$ 4,496	\$ 4,870	\$ 4,828	
Other local sources	742	895	595	744	834	957	921	
State	10,771	12,149	10,792	12,186	9,411	10,056	10,592	
Federal	1,344	1,124	1,441	1,257	375	275	240	
Total General Fund	15,617	17,134	16,532	18,163	15,116	16,158	16,581	
Special revenue funds								
Food Service	676	847	649	822	762	861	832	
Community Service	795	835	919	964	1,421	1,384	1,406	
Debt Service Fund	1,579	1,669	1,595	1,625	2,197	2,114	2,668	
Total revenue	<u>\$ 18,667</u>	<u>\$ 20,485</u>	<u>\$ 19,695</u>	<u>\$ 21,574</u>	<u>\$ 19,496</u>	<u>\$ 20,517</u>	<u>\$ 21,487</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>2,895</u>	<u>2,934</u>	<u>2,936</u>	
Note: Excludes the Capital Projects – Building Construction Fund and the Post-Employment Benefits Debt Service Fund.								
Source of state-wide and metro area data: School District Profiles Report published by the MDE								

ADM used in the table above and on the next page 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 these comparisons when revenue and expenditures are based on fixed costs, such as debt levies or principal and interest payments.

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 \$63,082,786 in the governmental funds reflected above in fiscal 2025, an increase of \$2,883,449 (4.8 percent) from the prior year, or \$970 per ADM served. Increases in state funding for general education, special education, and new literacy training grants contributed to a revenue increase of \$423 per ADM in the General Fund. Food Service Special Revenue Fund revenue was \$29 per ADM lower than last year, due to decreased federal reimbursement revenue and paid meal sales. Community Service Special Revenue Fund revenue was \$22 per ADM higher than last year, mainly in tuition and fees. Debt Service Fund revenue was \$554 per ADM higher than last year, due to an increased property tax levy for recent debt issues.

GOVERNMENTAL FUNDS EXPENDITURES

The following table reflects similar comparative data available from the MDE for all governmental funds 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. 278 – Orono			
	2023	2024	2023	2024	2023	2024	2025	
General Fund								
Administration and district support	\$ 1,300	\$ 1,372	\$ 1,320	\$ 1,410	\$ 1,114	\$ 1,078	\$ 1,116	
Elementary and secondary regular instruction	6,646	7,034	7,019	7,466	7,483	7,691	8,270	
Vocational education instruction	224	243	198	215	114	141	112	
Special education instruction	2,892	3,158	3,059	3,346	1,892	1,984	2,053	
Instructional support services	861	874	1,030	1,032	1,088	1,153	1,195	
Pupil support services	1,553	1,707	1,712	1,916	1,152	1,307	1,343	
Sites and buildings and other	1,201	1,192	1,171	1,160	1,742	1,650	1,755	
Total General Fund – noncapital	14,677	15,580	15,509	16,545	14,585	15,004	15,844	
General Fund capital expenditures	960	996	959	1,052	965	797	858	
Total General Fund	15,637	16,576	16,468	17,597	15,550	15,801	16,702	
Special revenue funds								
Food Service	706	801	693	780	732	824	828	
Community Service	763	818	865	929	1,218	1,362	1,436	
Debt Service Fund	1,626	1,737	1,652	1,596	2,089	2,232	2,558	
Total expenditures	<u>\$ 18,732</u>	<u>\$ 19,932</u>	<u>\$ 19,678</u>	<u>\$ 20,902</u>	<u>\$ 19,589</u>	<u>\$ 20,219</u>	<u>\$ 21,524</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>2,895</u>	<u>2,934</u>	<u>2,936</u>	
Note: Excludes the Capital Projects – Building Construction Fund and the Post-Employment Benefits Debt Service Fund.								
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 \$63,194,469 in the funds reflected above in fiscal 2025, an increase of \$3,876,112 (6.5 percent) from the prior year, or \$1,305 per ADM. General Fund expenditures increased \$901 per ADM, mainly in personnel costs for instruction and support and purchased services for instructional programs. Community Service Special Revenue Fund expenditures were \$74 per ADM more than the prior year, mainly in personnel costs and purchased services due to increased program participation. Debt Service Fund costs increased \$326 per ADM due to new bonds issued by the District in recent years.

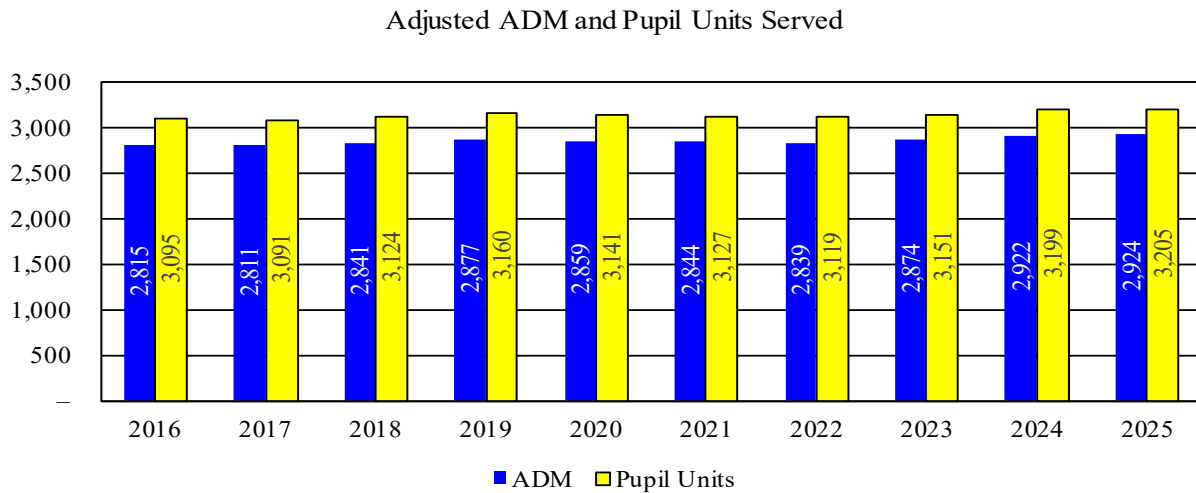
SUMMARY

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.

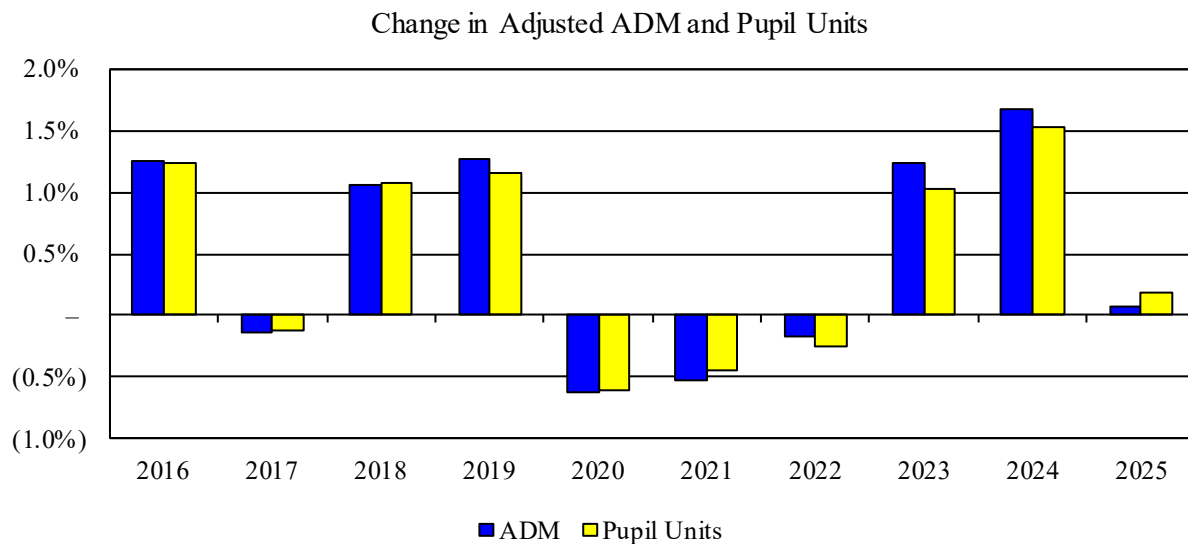
FINANCIAL TRENDS OF YOUR DISTRICT

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:

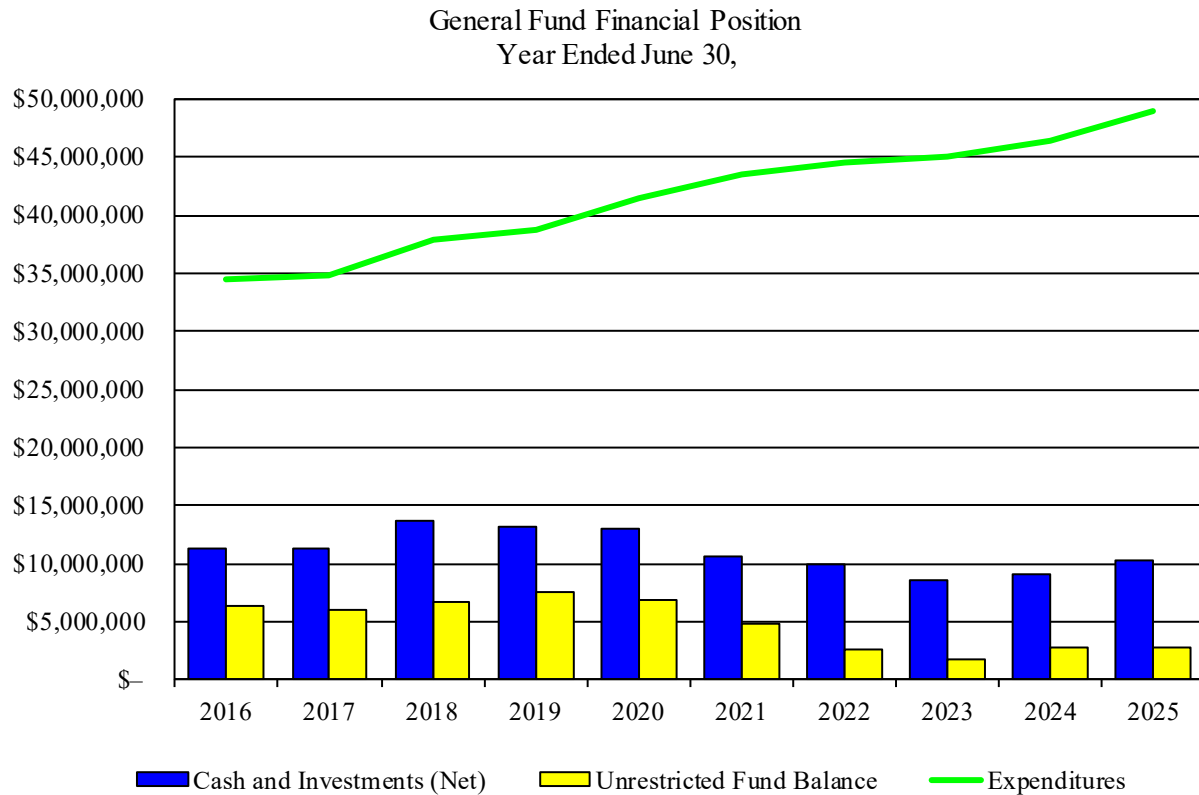


ADM is a measure of student enrollment, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are 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 adjusted ADM served by the District was 2,924 for fiscal 2025, an increase of 2 from the previous year. The number of pupil units served by the District was 3,205, an increase of 6 from the previous year.

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 2025 with a General Fund cash balance (net of interfund borrowing) of \$10,280,959, an increase of \$1,198,913 from the previous year.

Total fund balance at year-end was \$4,931,897, an increase of \$33,182 from the previous year, compared to an increase of \$63,864 projected in the final budget. Unrestricted fund balance (consisting of assigned and unassigned fund balances), but excluding restricted account deficits at year-end, was \$2,801,843.

GENERAL FUND COMPONENTS OF FUND BALANCE

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

	Year Ended June 30,				
	2021	2022	2023	2024	2025
Nonspendable fund balances	\$ 603,343	\$ 238,308	\$ 314,786	\$ 338,814	\$ 586,577
Restricted fund balances (1)	2,617,404	2,112,326	1,622,587	1,781,890	1,543,477
Unrestricted fund balances					
Assigned	1,280,879	796,041	280,814	421,393	453,704
Unassigned	3,510,032	1,748,696	1,463,928	2,356,618	2,348,139
Total fund balance	<u>\$ 8,011,658</u>	<u>\$ 4,895,371</u>	<u>\$ 3,682,115</u>	<u>\$ 4,898,715</u>	<u>\$ 4,931,897</u>
Unrestricted fund balances as a percentage of total expenditures	<u>11.0%</u>	<u>5.7%</u>	<u>3.9%</u>	<u>6.0%</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.

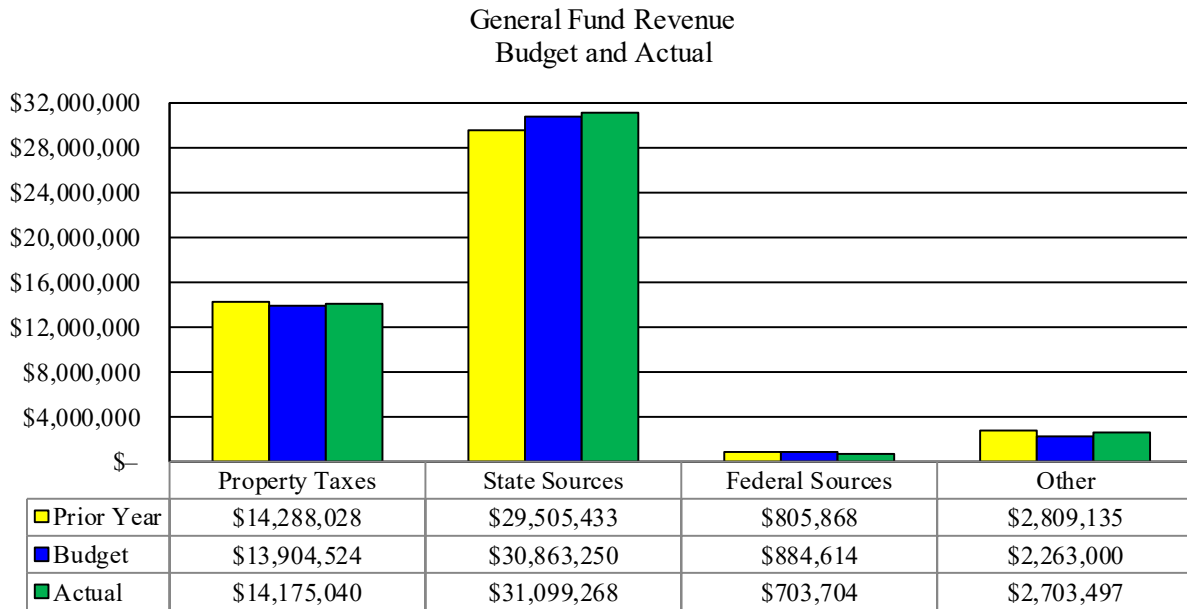
The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

At June 30, 2025, unrestricted fund balances as shown above represented 5.7 percent of annual General Fund expenditures, or about three weeks of operations assuming level spending throughout the year.

The District's fund balance policy calls for maintaining a minimum year-end fund balance (excluding any restricted account deficits) of 5.0 percent of the expenditures budgeted for the subsequent year. The June 30, 2025 unassigned fund balance of \$2,348,139 represents 4.7 percent of General Fund budgeted expenditures for 2026.

GENERAL FUND REVENUES

The following graph summarizes the District's General Fund revenue sources for 2025:

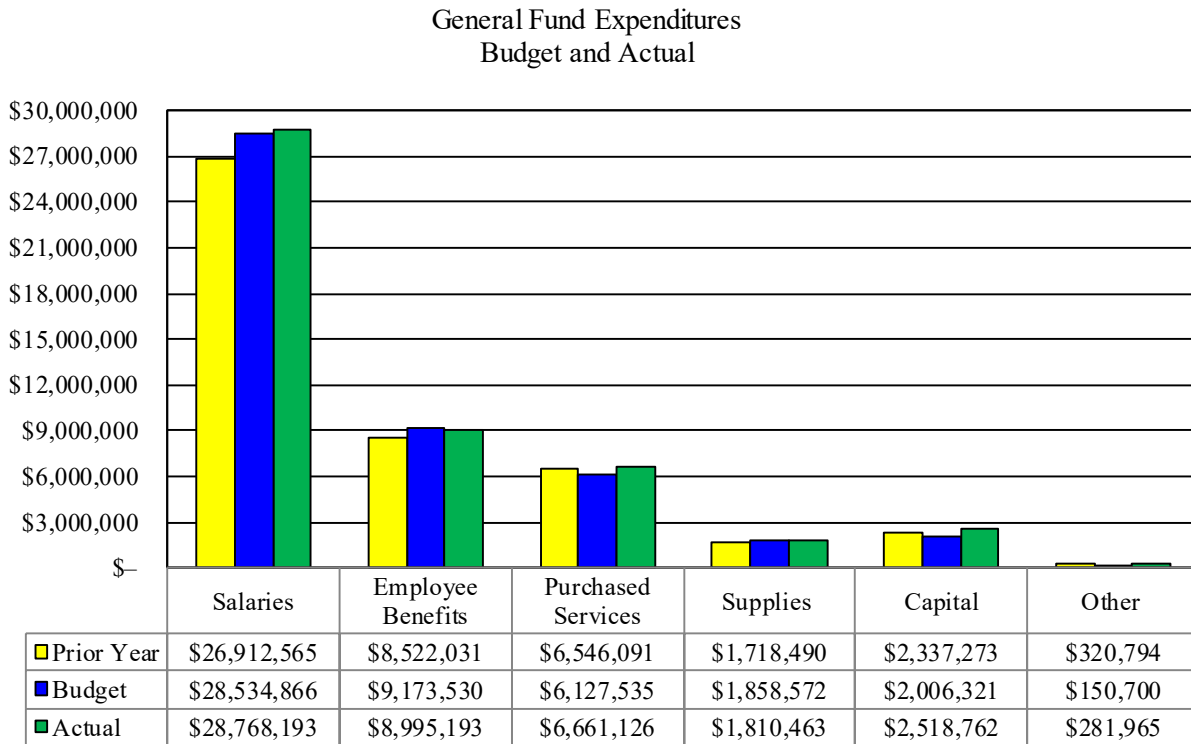


General Fund revenue for fiscal 2025 totaled \$48,681,509, which was \$766,121 over the final budget. Revenue from property taxes exceeded budget by \$270,516, mainly in operating capital levies. Revenue from state sources was over budget by \$236,018, mainly in state special education aid. Revenue from federal sources was under budget by \$180,910, mainly due to the District earning less in federal pandemic relief and special education entitlements than anticipated. Other local revenue as shown above, which includes investment earnings, donations, and athletic fees and concessions, exceeded budget by \$440,497, mainly due to conservative budgeting for these inconsistent revenues.

Total General Fund revenue was \$1,273,045 higher than the prior year. Property taxes were \$112,988 lower than last year, due to increased delinquencies and abatements. Revenue from state sources was \$1,593,835 higher than last year, mainly in general education, special education, and new literacy program aids. Revenue from federal sources was \$102,164 lower than the prior year, due to a decrease in available pandemic relief entitlements. Revenue from other local sources was \$105,638 lower than last year, due to decreased investment earnings, along with a one-time payment received from Hennepin County for an easement in fiscal 2024.

GENERAL FUND EXPENDITURES

The following graph summarizes the District's General Fund expenditures for 2025:

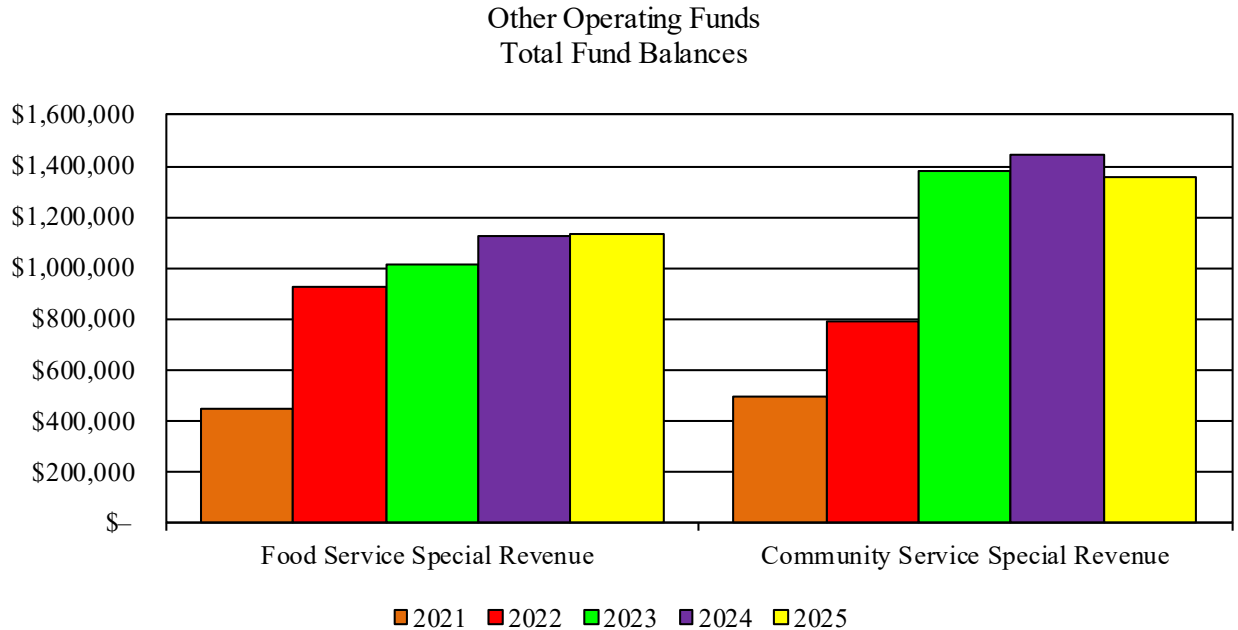


Total General Fund expenditures for fiscal 2025 were \$49,035,702, which was \$1,184,178 (about 2.5 percent) over budget, mainly in unbudgeted literacy training, indoor air quality improvements, utility costs, and lease activity.

General Fund total expenditures were \$2,678,458 more than the prior year. Salaries and benefits were \$2,328,790 (6.6 percent) higher than the prior year, due to added positions, contractual wage increases, and inflationary increases to benefits. Purchased services were \$115,035 more than the prior year in total, mainly in transportation costs. Capital outlay expenditures were \$181,489 higher due to the timing of projects.

OTHER FUNDS OF THE DISTRICT

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



Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2025 with a fund balance increase of \$12,688, as compared to a budgeted decrease of \$113,499. Food service revenue of \$2,441,408 was \$417,408 over budget, mainly in state and federal revenue. Expenditures of \$2,431,505 were \$294,006 over budget, primarily in higher purchased services and food and supply costs due to increased participation. The Food Service Special Revenue Fund had a year-end fund balance of \$1,134,541, representing 46.7 percent of annual expenditures.

Community Service Special Revenue Fund

The Community Service Special Revenue Fund total fund balance decreased \$88,716 in 2025, as compared to a budgeted increase of \$155,156. Revenue totaled \$4,127,083 for the year, which was \$482,503 over a conservative budget, in addition to being \$65,995 higher than last year. Expenditures of \$4,215,799 were over budget by \$726,375, primarily in personnel costs and purchased services, due to higher than expected program participation. The Community Service Special Revenue Fund had a year-end fund balance of \$1,355,098, representing 32.1 percent of annual expenditures.

Capital Projects – Building Construction Fund

During the 2025 fiscal year, the District continued planned indoor air quality and maintenance projects financed with the proceeds of facilities maintenance and capital improvement bonds issued in both fiscal 2023 and in the current year. Fund balance increased \$1,883,924 to a balance of \$5,115,420 at year-end, as the maintenance projects related to the \$4.92 million bonds issued in the current year are ongoing at year-end.

Debt Service Fund

The resources of the Debt Service Fund are dedicated to the payment of the District's outstanding bond obligations, which are controlled in accordance with each outstanding bond issue's financing plan. Fund balance increased \$330,548 in 2025, ending the year with \$1,444,897 available for future debt service.

Internal Service Funds

The District uses internal service funds to account for dental and medical benefits offered by the District to its employees as self-insured plans. At year-end, the District had net position of \$121,203 available for future claims in the Dental Self-Insurance Fund, and net position of \$3,379,738 available for future claims in the Medical Self-Insurance Fund. The net position of these funds decreased by a combined \$59,895 during the year.

Post-Employment Benefits Trust Fund

The Post-Employment Benefits Trust Fund is considered a fiduciary fund, where assets are held in trust to finance OPEB payable to former employees of the District. At year-end, the District had net position of \$2,585,509 available for future OPEB benefits, estimated to be \$7,029,243 based on the most recent actuarial projection.

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,		
	2025	2024	Change
Net position – governmental activities			
Total fund balances – governmental funds	\$ 13,981,853	\$ 11,810,227	\$ 2,171,626
Capital assets, net of depreciation	76,910,529	76,109,206	801,323
Bonds, financed purchases, and lease liabilities	(55,866,373)	(57,154,505)	1,288,132
PERA and TRA pensions	(25,141,216)	(26,303,690)	1,162,474
OPEB and compensated absences	(6,318,074)	(4,691,439)	(1,626,635)
Other adjustments	3,040,599	2,990,220	50,379
Total net position – governmental activities	<u>\$ 6,607,318</u>	<u>\$ 2,760,019</u>	<u>\$ 3,847,299</u>
Net position			
Net investment in capital assets	\$ 26,897,118	\$ 23,413,394	\$ 3,483,724
Restricted	5,688,046	5,231,671	456,375
Unrestricted	<u>(25,977,846)</u>	<u>(25,885,046)</u>	<u>(92,800)</u>
Total net position	<u>\$ 6,607,318</u>	<u>\$ 2,760,019</u>	<u>\$ 3,847,299</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 liabilities, and net OPEB liabilities.

Total government-wide net position increased by \$5,151,983 from fiscal 2025 activity. In addition, the previously discussed change in accounting principle related to compensated absences resulted in a decrease of \$1,304,684 to beginning net position.

The District's net investment in capital assets was \$3,483,724 higher than the prior year-end, due to the relationship of debt retirement, as compared to depreciation on capital assets. The restricted portion of net position increased \$456,375, mainly due to an increase in resources restricted for debt service. Unrestricted net position decreased \$92,800, mainly due to the change in accounting principle, offset by positive changes in the District's proportionate share of the state-wide Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) pension plans.

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. 103, *FINANCIAL REPORTING MODEL IMPROVEMENTS*

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

This statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). This statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. In addition, this statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

This statement defines unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence, and requires governments to display the inflows and outflows related to each unusual or infrequent item separately.

This statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

This statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments are also required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

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

GASB STATEMENT NO. 104, *DISCLOSURE OF CERTAIN CAPITAL ASSETS*

The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets.

This statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this statement requires intangible assets other than those three types to be disclosed separately by major class.

This statement also requires additional disclosures for capital assets held for sale. A capital asset is considered held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. Capital assets held for sale are required to be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

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