

Management Report

for

Independent School District No. 833
South Washington County Schools
Cottage Grove, Minnesota

June 30, 2025



Certified Public Accountants Business Consultants

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To the School Board and Management of
Independent School District No. 833
Cottage Grove, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 833'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 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.

Respectfully submitted,

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

LB CARLSON, LLP
Minneapolis, Minnesota

December 29, 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 was not issued until the end of November 2025. 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 could not be finalized until the final version of this guidance was 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 Expenditures of Federal Awards and related reports separately by this deadline.

AUDIT OPINIONS AND FINDINGS

Based on our audit of the District's financial statements for the year ended June 30, 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*, 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 management and modified as necessary.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the District's compliance with Minnesota laws and regulations.

SIGNIFICANT ACCOUNTING POLICIES

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

No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2025. However, the District implemented the following GASB standard 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 Statement of Activities by \$39,176,391.

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

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

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

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

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

The District has recorded a liability in the Statement of Net Position for 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, 73, 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 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 December 29, 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 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.

FUNDING PUBLIC EDUCATION IN MINNESOTA

This section provides selected 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 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.

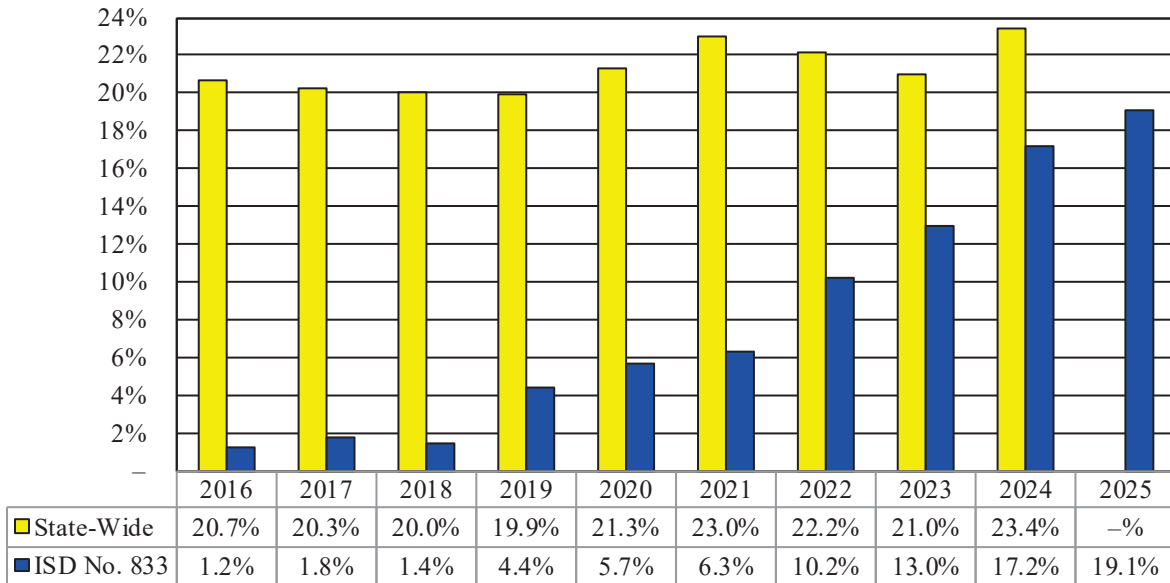
For fiscal 2026 and beyond, the annual formula increase will be adjusted for inflation, using a formula based on the Consumer Price Index-Urban (CPI-U) average inflation rate for the fourth calendar quarter of the immediately prior fiscal year compared to the average for the fourth calendar quarter of 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	2.75 %

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 19.1 percent at the end of the current year, as compared to 17.2 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 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. 833 – South Washington			
	2023	2024	2023	2024	2023	2024	2025	
General Fund								
Property taxes	\$ 2,760	\$ 2,966	\$ 3,704	\$ 3,976	\$ 3,782	\$ 4,042	\$ 4,563	
Other local sources	742	895	595	744	391	528	516	
State	10,771	12,149	10,792	12,186	10,435	11,775	12,573	
Federal	1,344	1,124	1,441	1,257	520	329	268	
Total General Fund	15,617	17,134	16,532	18,163	15,128	16,674	17,920	
Special revenue funds								
Food Service	676	847	649	822	605	788	790	
Community Service	795	835	919	964	784	836	893	
Debt Service Fund	1,579	1,669	1,595	1,625	1,769	2,061	2,104	
Total revenue	<u>\$ 18,667</u>	<u>\$ 20,485</u>	<u>\$ 19,695</u>	<u>\$ 21,574</u>	<u>\$ 18,286</u>	<u>\$ 20,359</u>	<u>\$ 21,707</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>18,812</u>	<u>19,049</u>	<u>19,337</u>	
Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.								
Source of state-wide and metro area data: School District Profiles Report published by the MDE								

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

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

The District earned \$419,760,627 in the governmental funds reflected above in fiscal 2025, an increase of \$31,948,805 (8.2 percent) over the prior year. Total revenue per ADM served increased by \$1,348 per student. The increase was spread across most sources presented in the above table. The General Fund revenue increased by \$1,246 per student. Property taxes were up as approved through the annual tax levy process. State sources were up with the growth in the basic formula allowance, along with added funding for special education programming. New funding as legislatively approved for other areas also increased state sources. Federal revenues in the General Fund were down with the final spending and the end of several COVID-19 pandemic-related entitlements. Increased programming and participation contributed to the additional funding in the Community Service Special Revenue Fund. Debt Service Fund revenue per capita was up due to an increase in property taxes as approved with new bonds issued in recent years.

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. 833 – South Washington			
	2023	2024	2023	2024	2023	2024	2025	
General Fund								
Administration and district support	\$ 1,300	\$ 1,372	\$ 1,320	\$ 1,410	\$ 930	\$ 976	\$ 1,116	
Elementary and secondary regular instruction	6,646	7,034	7,019	7,466	6,432	6,696	7,199	
Vocational education instruction	224	243	198	215	165	213	227	
Special education instruction	2,892	3,158	3,059	3,346	2,869	3,469	3,742	
Community service	–	–	–	–	6	13	22	
Instructional support services	861	874	1,030	1,032	687	860	962	
Pupil support services	1,553	1,707	1,712	1,916	1,631	1,832	1,979	
Sites, buildings, and other	1,201	1,192	1,171	1,160	1,867	1,806	1,521	
Total General Fund – noncapital	14,677	15,580	15,509	16,545	14,587	15,865	16,768	
General Fund capital expenditures	960	996	959	1,052	318	467	1,124	
Total General Fund	15,637	16,576	16,468	17,597	14,905	16,332	17,892	
Special revenue funds								
Food Service	706	801	693	780	608	655	750	
Community Service	763	818	865	929	774	883	909	
Debt Service Fund	1,626	1,737	1,652	1,596	1,802	1,982	2,162	
Total expenditures	<u>\$ 18,732</u>	<u>\$ 19,932</u>	<u>\$ 19,678</u>	<u>\$ 20,902</u>	<u>\$ 18,089</u>	<u>\$ 19,852</u>	<u>\$ 21,713</u>	
ADM served per MDE School District Profiles Report (current year estimated)					18,812	19,049	19,337	
Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.								
Source of state-wide and metro area data: School District Profiles Report published by the MDE								

Expenditure patterns also vary from district to district for various reasons. Factors affecting the comparison include the growth cycle or maturity of the District, average employee experience, availability of funding, population density, and even methods of allocating costs.

The District spent \$419,853,537 in the governmental funds reflected above in fiscal 2025, an increase of \$41,708,063 (11.0 percent) over the prior year. On a per-student basis, this represents an increase of \$1,861. General Fund expenditures increased by \$1,560 per student, spread across most categories as presented above. Spending was up in elementary and secondary regular instruction (\$503 per student) and special education instruction (\$273 per student), largely in salaries and benefits due to the contractually approved increases and more positions in the current year. General Fund spending was also up for long-term facilities maintenance (LTFM) and other capital spending. Food service and community service spending was up with more program participation. Debt service increased as anticipated with new debt issued in recent years.

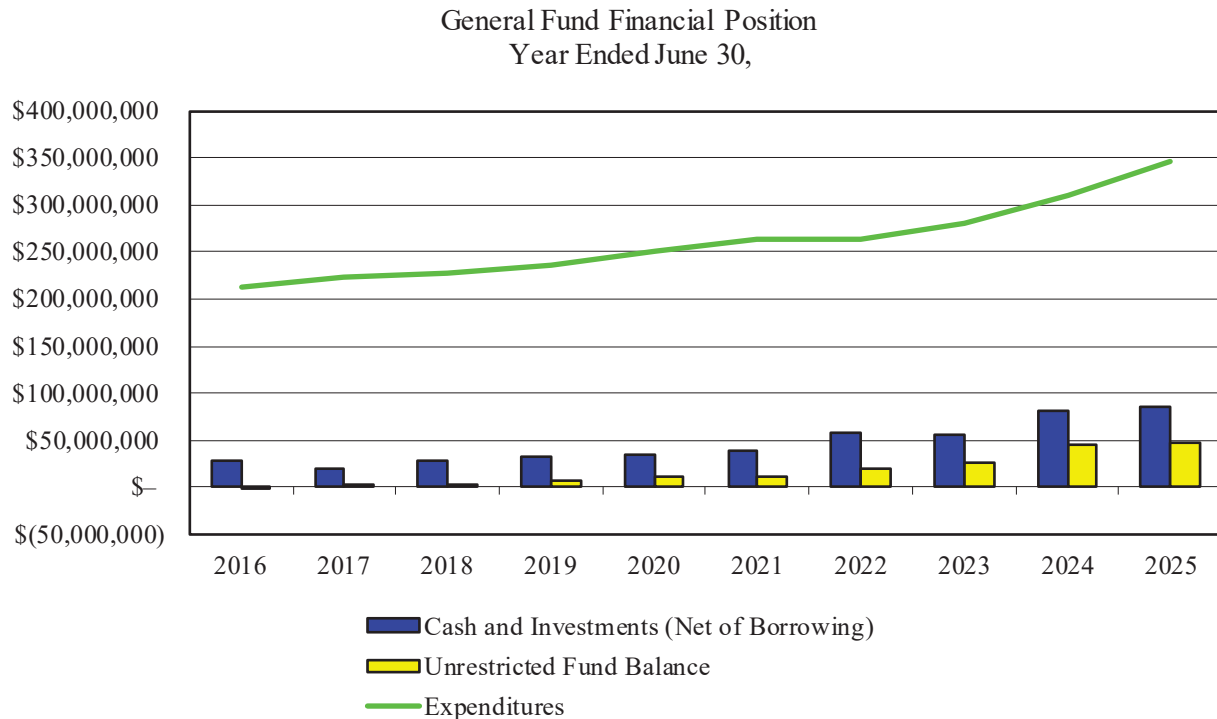
SUMMARY

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, increasing demand for special education services, 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 2025 with a General Fund cash balance of \$85,986,684 (net of interfund borrowing), an increase of \$4,463,629 from the prior year. The unrestricted fund balance in the General Fund at year-end was \$48,083,769 (excluding restricted fund balance deficits), an increase of \$3,730,701.

Total fund balance of the General Fund increased by \$9,692,839, compared to a fund balance increase of \$1,072,088, 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,				
	2021	2022	2023	2024	2025
Nonspendable fund balances	\$ 4,015,380	\$ 3,549,624	\$ 5,549,532	\$ 699,190	\$ 4,630,829
Restricted fund balances (1)	3,458,155	3,841,565	3,803,569	2,931,307	4,961,806
Unrestricted fund balances					
Committed	2,379,759	3,006,324	3,377,959	5,452,555	2,805,552
Assigned	—	—	—	5,058,554	1,943,077
Unassigned	8,011,723	16,936,126	22,335,784	33,841,959	43,335,140
Total fund balance	<u>\$ 17,865,017</u>	<u>\$ 27,333,639</u>	<u>\$ 35,066,844</u>	<u>\$ 47,983,565</u>	<u>\$ 57,676,404</u>
Unrestricted fund balances as a percentage of total expenditures	<u>3.9%</u>	<u>7.6%</u>	<u>9.2%</u>	<u>14.3%</u>	<u>13.9%</u>
Unassigned fund balances as a percentage of total expenditures	<u>3.0%</u>	<u>6.4%</u>	<u>8.0%</u>	<u>10.9%</u>	<u>12.5%</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 differ 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.

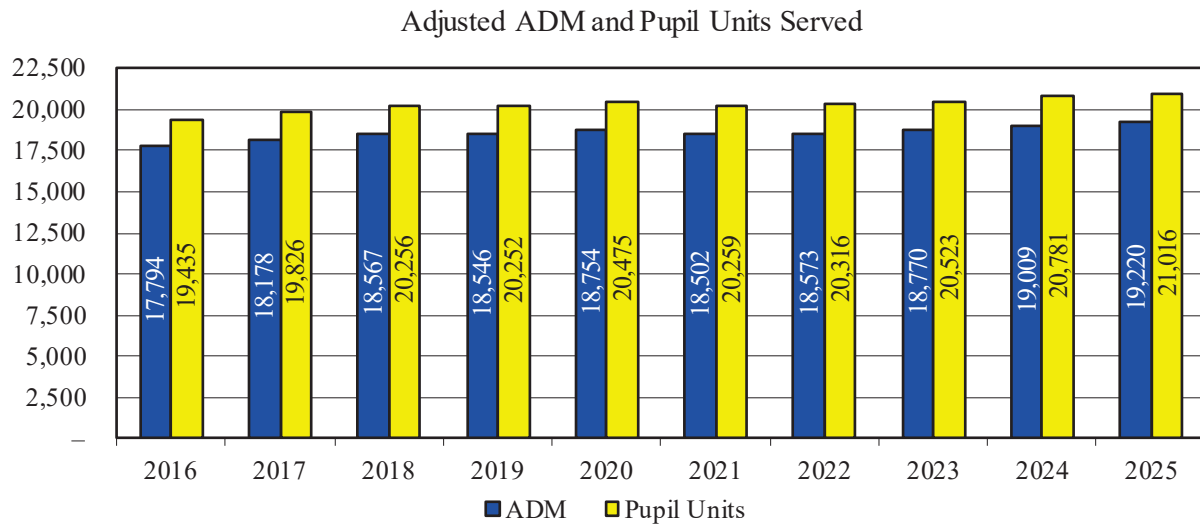
At June 30, 2025, the unrestricted fund balance in the General Fund calculated to 13.9 percent of total expenditures, as presented in the table above, or seven weeks of operations assuming level spending throughout the year.

Minimum Fund Balance Policy

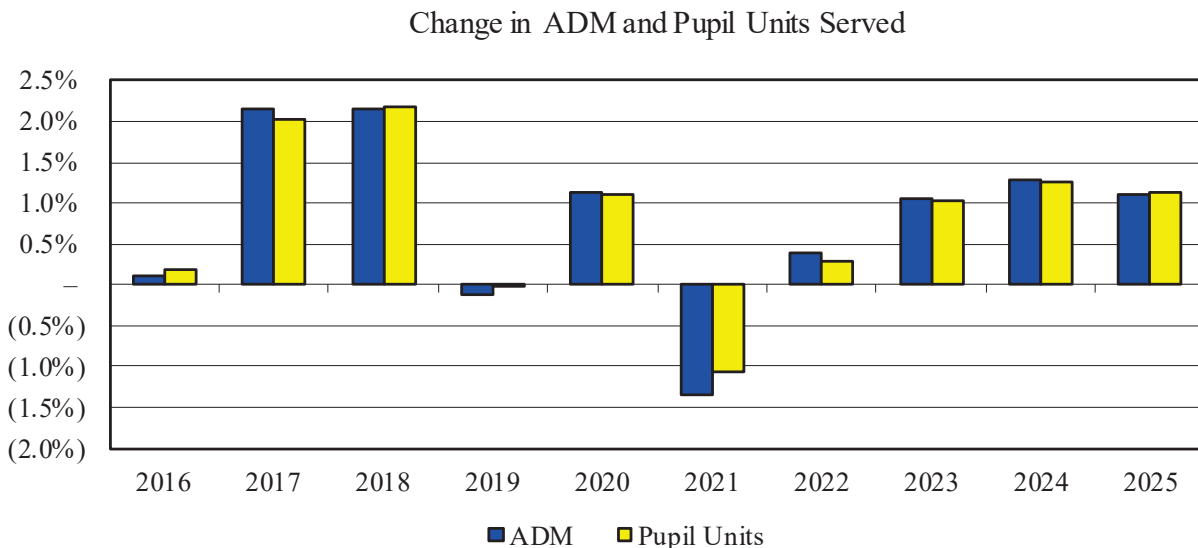
The School Board-approved fund balance policy states that the District will endeavor to reach an unrestricted fund balance of 16.6 percent of the General Fund unrestricted operating expenditure budget by the end of fiscal year 2026. As of June 30, 2025, the District's unrestricted fund balance was 19.1 percent, as calculated in accordance with the District's policy.

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph presents the District's adjusted ADM and resulting pupil units 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:

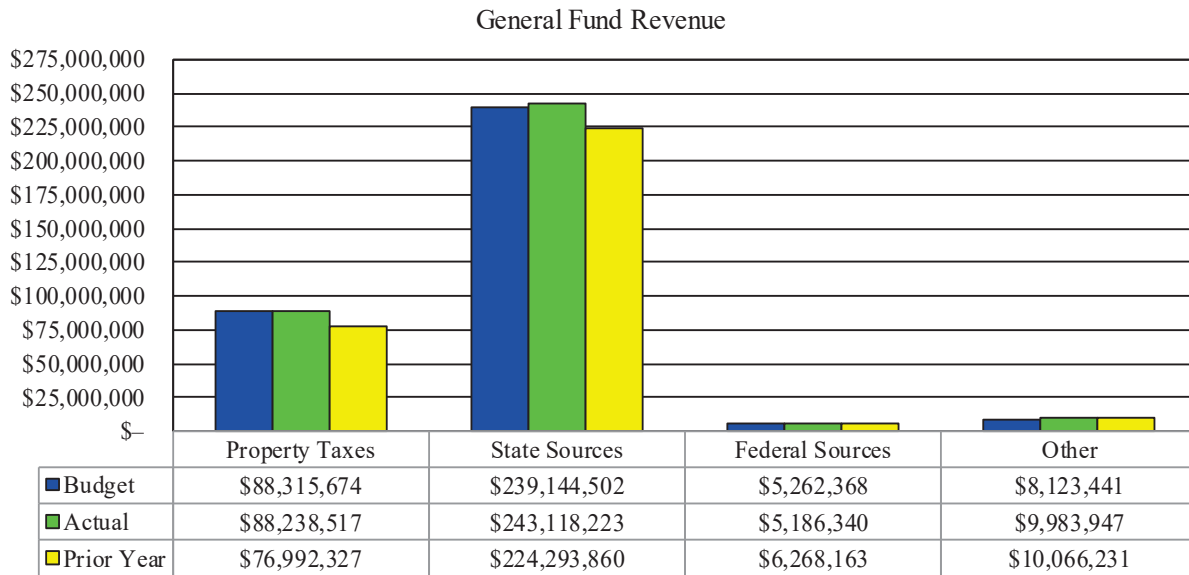


ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts 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 19,220 in 2025, an increase of 211 ADM (1.1 percent) from the prior year. The resulting pupil units served by the District increased by 235 to 21,016.

GENERAL FUND REVENUES

The following graph presents the District's General Fund revenues for 2025:



For 2025, revenues of \$346,527,027 were over budget by \$5,681,042, or 1.7 percent, and were \$28,906,446, or 9.1 percent, more than the prior year.

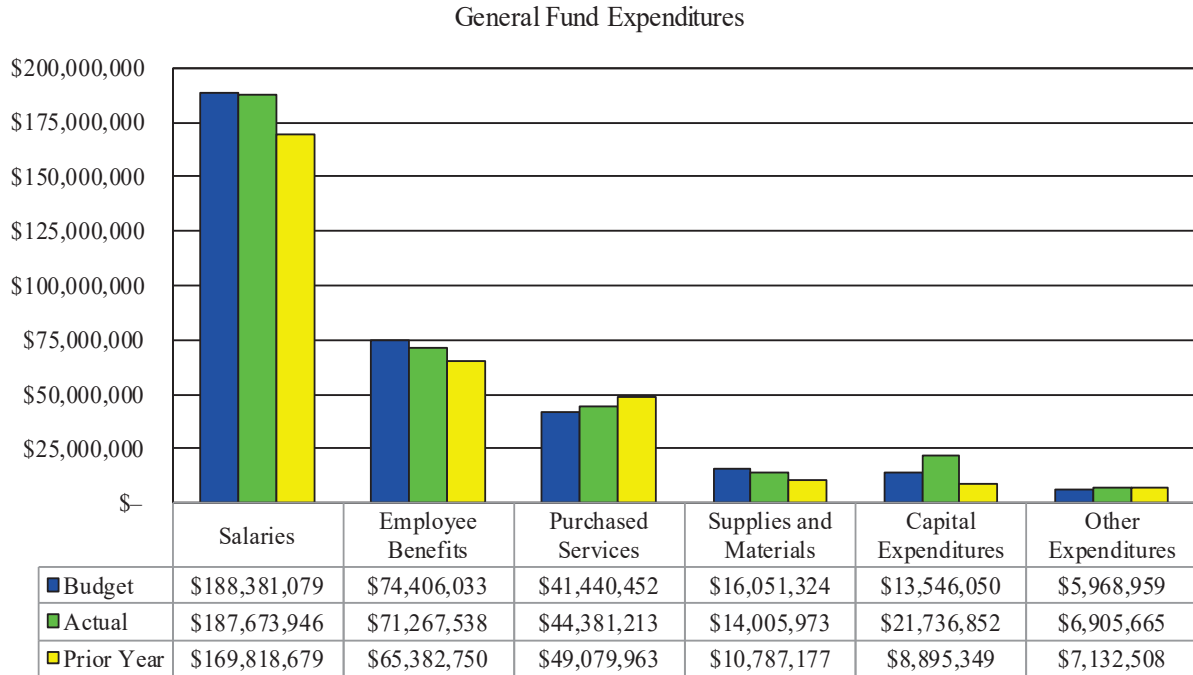
Revenues were better than anticipated in the budget for state and other local sources as presented in the above graph. Conservative budgeting for the number of students served, grant entitlements, and other local sources all contributed to revenues exceeding budget.

The District reported revenue increases over the prior year in property taxes and state 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 general education, special education, and new literacy program aids. 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 (70.2 percent), followed by property taxes (25.5 percent) received to finance General Fund operations.

GENERAL FUND EXPENDITURES

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



In 2025, expenditures of \$345,971,187 were \$6,177,290, or 1.8 percent, over the final budget, and were \$34,874,761, or 11.2 percent, more than the prior year.

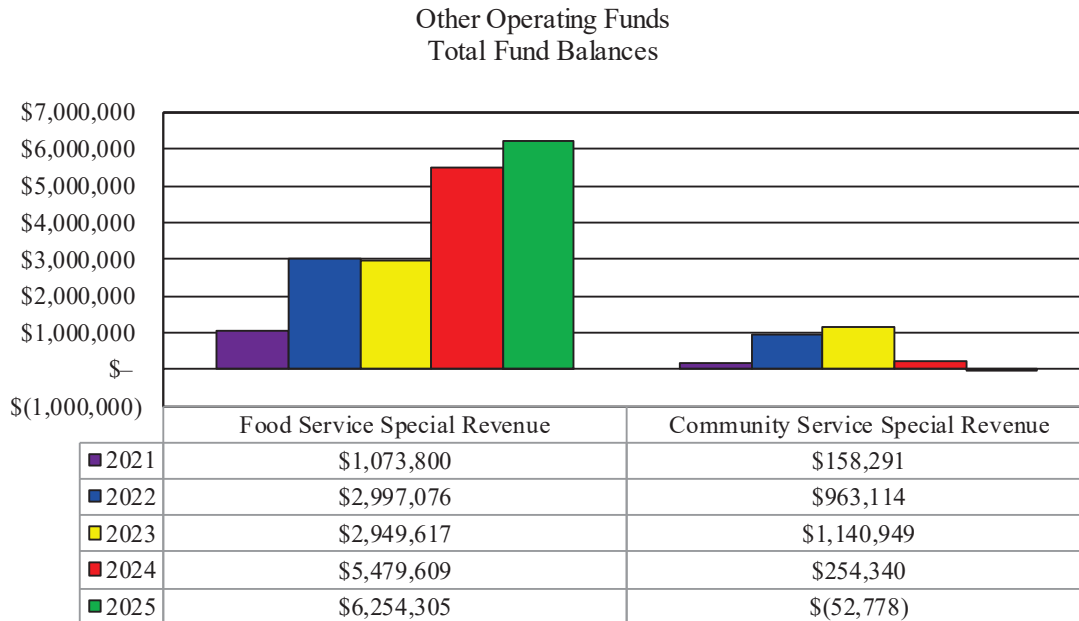
Salary and benefit-related charges, which account for 74.8 percent of General Fund expenditures, increased by \$23,740,055 (10.1 percent) and were \$3,845,628 (1.5 percent) under amounts planned in the budget. Conservative budgeting, attrition, and at times open positions contributed to salaries and benefits ending the year less than projected. The ability to fill certain open positions and increases approved in contracts contributed to the change over prior year.

Purchased services were down compared to the current year. There was more spending for purchased services in the LTFM program in the prior year. The variance to budget was largely in elementary and secondary regular instruction and in pupil support services for transportation costs.

Capital expenditures also reported a large increase and variance to budget. The District reported new leases for buses and technology devices along with new subscription liabilities for software in the current year, which required the District to report capital expenditures with an equal amount of debt issued as an "other financing source." The result is the District is over in capital spending with an equal offset in debt proceeds to balance this transaction, with no "bottom line" effect on the budget.

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 \$774,696 from the prior year, compared to an anticipated increase of \$48,018. Revenues were \$64,971 over budget and expenditures were \$661,707 under budget, respectively. Expenditures were under budget largely with less capital spending than anticipated in the budget. The Food Service Special Revenue Fund had a year-end fund balance of \$6,254,305, representing 43.1 percent of annual expenditures totaling \$14,500,475.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund reported a decrease in fund balance of \$307,118 from the prior year, compared to a budgeted decrease of \$323,122. Revenues were \$773,974 over budget, while expenditures were over budget by \$757,970. Program participation and related program expenditures surpassed budget projections in the current year. The Community Service Special Revenue Fund had a year-end fund balance deficit of \$52,778, representing a negative 0.3 percent of annual expenditures totaling \$17,574,345.

Year-end fund balance is split between restricted equity components within the Community Service Special Revenue Fund. The categories restricted for early childhood family education programs, school readiness, and community service are negative, as of June 30, 2025, with each deficit increasing compared to the prior year. The negative balances in these components have caused an overall deficit total equaling \$52,778 for the Community Special Revenue Fund to close the year. While deficit balances are permitted for these restricted categories, we recommend the District review the programs to determine the best way to finance these operations. If future revenue streams or spending adjustments are insufficient to eliminate these deficits, the District may need to consider a transfer from the General Fund.

We routinely comment that Community Service Special Revenue and Food Service Special Revenue Funds, need 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 a fund balance decrease of \$13,644,994, compared to a decrease of \$19,004,681 anticipated in the budget. The District issued \$8,980,000 of certificate of participations. Capital outlay expenditures of \$28,024,920 were incurred for deferred maintenance and school building projects. The District reported debt service expenditures totaling \$2,719,533 with the District electing to pay off lease debt previously issued for security improvements. At year-end, \$129,222,353 of fund balance remains restricted for projects funded by certificates of participation, LTFM, and capital projects.

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 dedicated to payment of outstanding debt obligations of the District. At year-end, the District had \$8,188,632 restricted for future debt service payments.

Other Post-Employment Benefits (OPEB) Trust Fund

The District has established the OPEB 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 \$3,377,203 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
	2025	2024	
Net position – governmental activities			
Total fund balances – governmental funds	\$ 201,288,916	\$ 205,889,821	\$ (4,600,905)
Total capital assets, net of depreciation/amortization	520,885,989	489,202,563	31,683,426
Pension adjustments	(153,742,856)	(161,027,270)	7,284,414
OPEB adjustments	(17,453,035)	(17,597,239)	144,204
Other long-term debt	(455,475,977)	(429,406,345)	(26,069,632)
Other adjustments	(5,297,176)	(5,247,936)	(49,240)
Total net position – governmental activities	<u>\$ 90,205,861</u>	<u>\$ 81,813,594</u>	<u>\$ 8,392,267</u>
Net position			
Net investment in capital assets	\$ 243,934,021	\$ 207,153,348	\$ 36,780,673
Restricted	20,349,682	18,265,633	2,084,049
Unrestricted	<u>(174,077,842)</u>	<u>(143,605,387)</u>	<u>(30,472,455)</u>
Total net position	<u>\$ 90,205,861</u>	<u>\$ 81,813,594</u>	<u>\$ 8,392,267</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 compensated absences, pension liabilities, and net OPEB liabilities.

Total net position increased by \$8,392,267 during fiscal 2025, including the change in accounting principle. The District's net investment in capital assets increased \$36,780,673 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 amortized, 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 restricted portion of the District's net position increased, primarily in amounts restricted for food service, community service, and other state funding purposes. The change in unrestricted net position includes 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 financial operations of the General Fund, as previously discussed, along with the change in accounting principle for compensated absences also contributed to the change 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. 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 also are 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.