

Management Report
for
Independent School District No. 16
Spring Lake Park, Minnesota
June 30, 2025



Certified Public Accountants Business Consultants

THIS PAGE INTENTIONALLY LEFT BLANK



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

We have prepared this management report in conjunction with our audit of Independent School District No. 16's (the District) financial statements for the year ended June 30, 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 8, 2025

THIS PAGE INTENTIONALLY LEFT BLANK

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 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 November 25, 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 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*, 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 consider to be material weaknesses. It should be understood that internal controls are never perfected, and those controls which protect the District's funds from such things as fraud and accounting errors need to be continually reviewed by management and modified as necessary.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported one finding based on our testing of the District's compliance with Minnesota laws and regulations. Minnesota Statutes require prompt payment of local government bills within a standard payment period of 35 days from receipt for governing boards that meet at least once a month. We noted 2 of 25 disbursements tested were not paid within the statutory timeline.

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 Statement of Activities by \$11,227,203.

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 and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

The depreciation of capital assets involves estimates pertaining to useful lives.

The District's self-insured activities require recording a liability for claims incurred, but not yet reported, which are based on estimates.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above 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 December 8, 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 section and statistical section, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

FINANCIAL TRENDS IN PUBLIC EDUCATION IN MINNESOTA

This section provides 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.

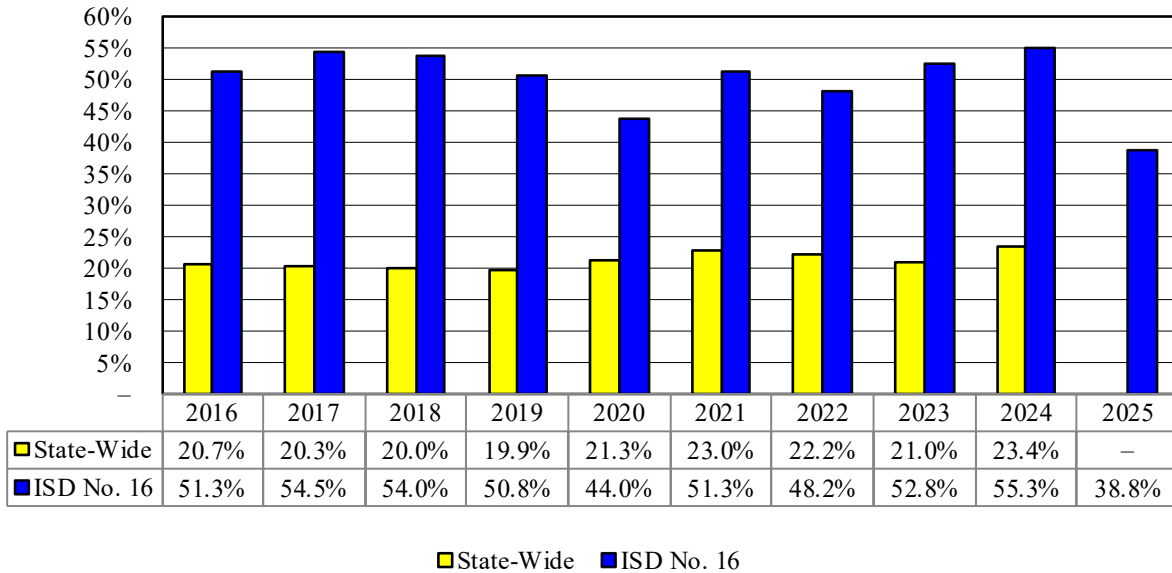
For fiscal 2026 and beyond, the annual formula increase will be adjusted for inflation, using a formula based on the Consumer Price Index-Urban (CPI-U) average inflation rate for the fourth calendar quarter of the immediately prior fiscal year compared to the average for the fourth calendar quarter of 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 38.8 percent at the end of the current year, as compared to 55.3 percent on 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 (when applicable). 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. 16 – Spring Lake Park			
	2023	2024	2023	2024	2023	2024	2025	
General Fund								
Property taxes	\$ 2,760	\$ 2,966	\$ 3,704	\$ 3,976	\$ 2,213	\$ 2,240	\$ 2,254	
Other local sources	742	895	595	744	453	668	717	
State	10,771	12,149	10,792	12,186	10,327	11,904	12,295	
Federal	1,344	1,124	1,441	1,257	723	878	414	
Total General Fund	15,617	17,134	16,532	18,163	13,716	15,690	15,680	
Special revenue funds								
Food Service	676	847	649	822	623	768	740	
Community Service	795	835	919	964	686	716	750	
Debt Service Fund	1,579	1,669	1,595	1,625	1,669	1,824	1,849	
Total revenue	<u>\$ 18,667</u>	<u>\$ 20,485</u>	<u>\$ 19,695</u>	<u>\$ 21,574</u>	<u>\$ 16,694</u>	<u>\$ 18,998</u>	<u>\$ 19,019</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>6,000</u>	<u>6,002</u>	<u>5,945</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 \$113,064,098 in the governmental funds reflected above in fiscal 2025, a decrease of \$966,064 (0.8 percent) from the prior year. Total revenue per ADM served decreased by \$21 (0.1 percent) per student. Most sources reported an increase over the prior year with the exception of federal sources that were down \$464. Federal sources were down with the end in funding for several pandemic-related programs. State sources were up with the increase in the basic formula allowance and improved funding for state special education.

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. 16 – Spring Lake Park		
	2023	2024	2023	2024	2023	2024	2025
General Fund							
Administration and district support	\$ 1,300	\$ 1,372	\$ 1,320	\$ 1,410	\$ 826	\$ 783	\$ 874
Elementary and secondary regular instruction	6,646	7,034	7,019	7,466	5,464	6,264	7,462
Vocational education instruction	224	243	198	215	85	146	161
Special education instruction	2,892	3,158	3,059	3,346	2,339	2,488	2,758
Instructional support services	861	874	1,030	1,032	1,128	1,274	1,445
Pupil support services	1,553	1,707	1,712	1,916	1,508	1,582	1,876
Sites, buildings, and other	1,201	1,192	1,171	1,160	1,197	1,274	1,338
Total General Fund – noncapital	14,677	15,580	15,509	16,545	12,547	13,811	15,914
General Fund capital expenditures	960	996	959	1,052	485	649	984
Total General Fund	15,637	16,576	16,468	17,597	13,032	14,460	16,898
Special revenue funds							
Food Service	706	801	693	780	592	735	741
Community Service	763	818	865	929	678	737	751
Debt Service Fund	1,626	1,737	1,652	1,596	1,675	1,857	1,801
Total expenditures	\$ 18,732	\$ 19,932	\$ 19,678	\$ 20,902	\$ 15,977	\$ 17,789	\$ 20,191
ADM served per MDE School District Profiles Report (current year estimated)					6,000	6,002	5,945
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 \$120,034,177 in the governmental funds reflected above in fiscal 2025, an increase of \$13,259,686 (12.4 percent) from the prior year. On a per student basis, this represents an increase of \$2,402. General Fund operating expenditures (excluding capital) increased \$2,103 per student, mainly in elementary and secondary regular instruction (\$1,198 per student), special education instruction (\$270 per student) and pupil support services (\$294 per student). General Fund capital expenditures increased \$335 per student, with more spending on building related improvements being financed with long-term facilities maintenance and other General Fund resources in the current year. Debt service spending was down as approved in debt financing plans and as anticipated with debt refunding transactions in recent years.

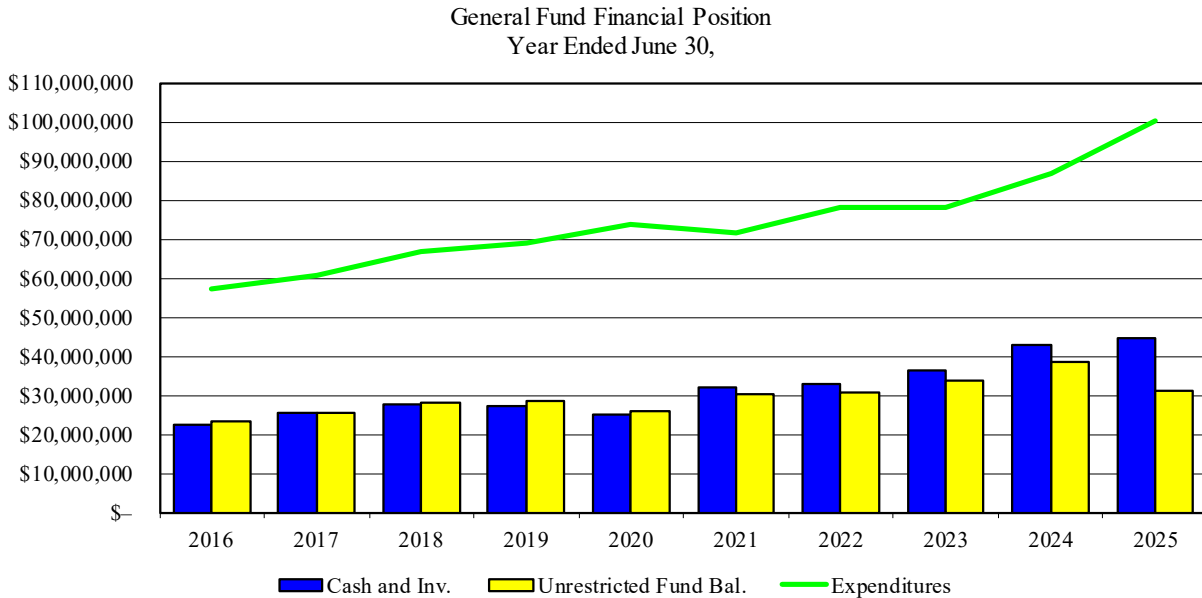
SUMMARY

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 and investments balance of \$44,441,314 (net of borrowing), an increase of \$1,366,627 from the previous year. Unrestricted fund balance (consisting of assigned and unassigned fund balances) at year-end totaled \$31,033,980, a decrease of \$7,723,173.

Total fund balance of the General Fund decreased by \$6,548,478, compared to a fund balance reduction of \$10,105,905 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	\$ 373,925	\$ 435,647	\$ 319,201	\$ 179,815	\$ 147,450
Restricted fund balances (1)	2,839,254	4,421,595	5,710,021	8,476,923	9,683,983
Unrestricted fund balances					
Assigned	3,890,939	8,320,000	14,328,713	19,838,429	13,193,532
Unassigned	26,189,279	22,561,811	19,588,488	18,918,724	17,840,448
Total fund balance	<u>\$ 33,293,397</u>	<u>\$ 35,739,053</u>	<u>\$ 39,946,423</u>	<u>\$ 47,413,891</u>	<u>\$ 40,865,413</u>
Unrestricted fund balances as a percentage of expenditures	<u>42.0%</u>	<u>39.4%</u>	<u>43.4%</u>	<u>44.7%</u>	<u>30.9%</u>
Unassigned fund balances as a percentage of expenditures	<u>36.6%</u>	<u>28.8%</u>	<u>25.1%</u>	<u>21.8%</u>	<u>17.8%</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.

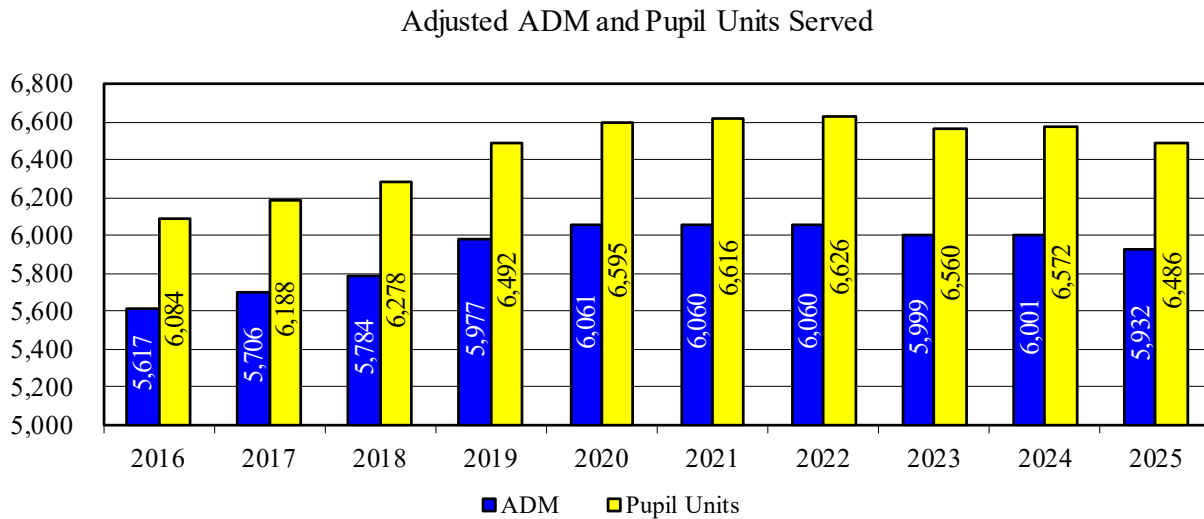
On June 30, 2025, unrestricted fund balance in the General Fund represented 30.9 percent of annual expenditures, or approximately 16 weeks of operations assuming level spending throughout the year.

Minimum Fund Balance Policy

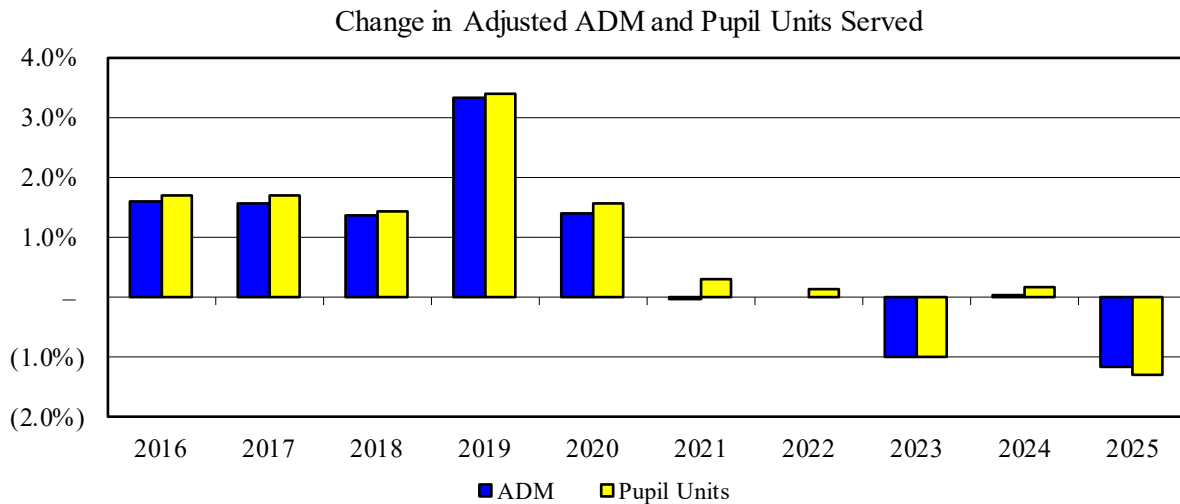
The District's fund balance policy is to strive to maintain a minimum unassigned General Fund balance of no less than two months of General Fund operating expenditures. On June 30, 2025, the District continued to meet this goal as defined by the fund balance policy.

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

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



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

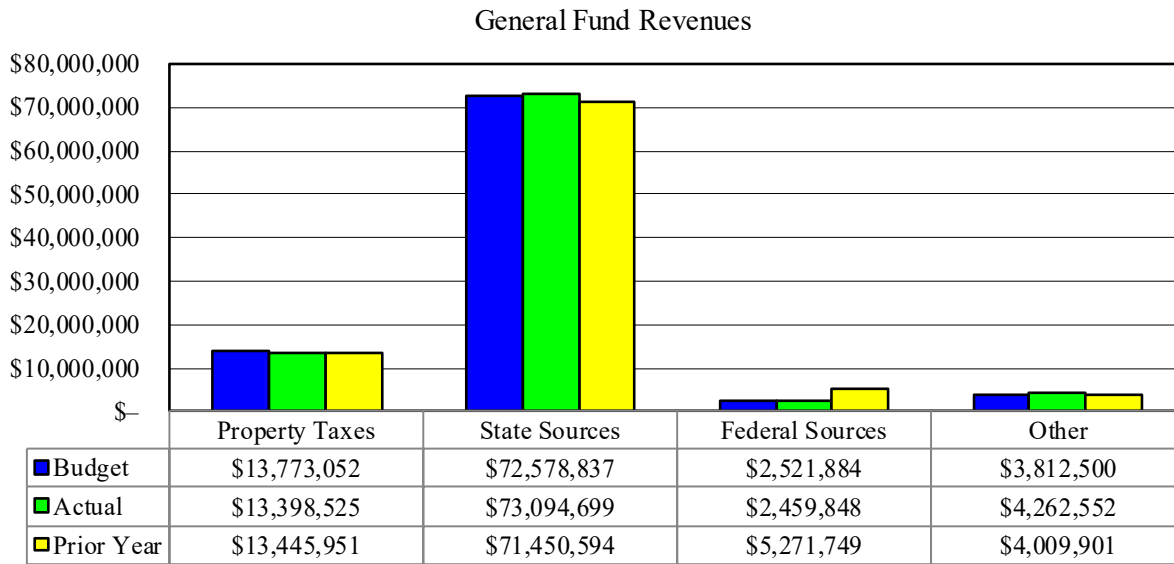


ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts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

The District served an estimated adjusted ADM of 5,932 in 2025, which is a decrease of 69 from the previous year. The number of resulting pupil units served by the District for fiscal 2025 was 6,486, a decrease of 86 (1.3 percent) from the prior year.

GENERAL FUND REVENUES

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



Total General Fund revenues were \$93,215,624 for the year ended June 30, 2025, which was \$529,351 (0.6 percent) over the final budget and \$962,566 (1.0 percent) less than the prior year.

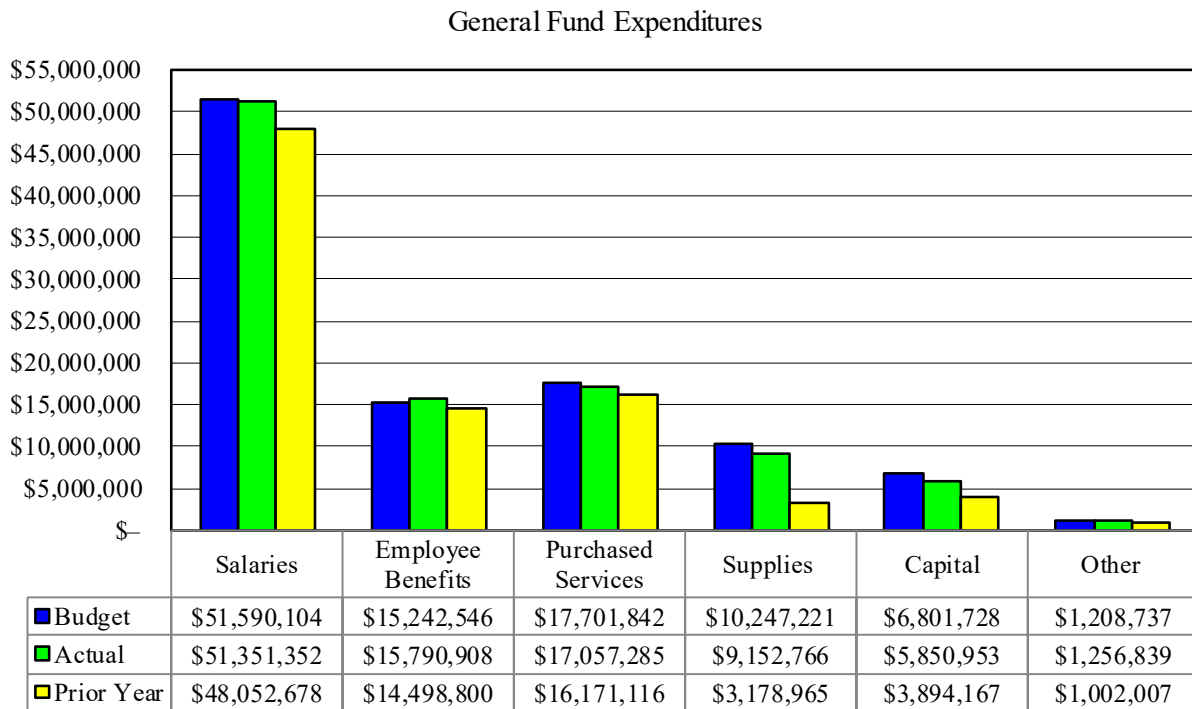
As presented in the graph above, revenues were close to amounts projected in the final budget. The variance compared to the budget was largely due to conservative budgeting for state sources and other local sources.

Revenue increases over the prior year in state sources with funding improvements and in other sources with more fees, were more than offset by a decrease in federal funding, with the end of COVID-19-related federal awards.

The graph above reflects the concentration of state sources (78.4 percent), followed by property taxes (14.4 percent) recognized to finance General Fund operations.

GENERAL FUND EXPENDITURES

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



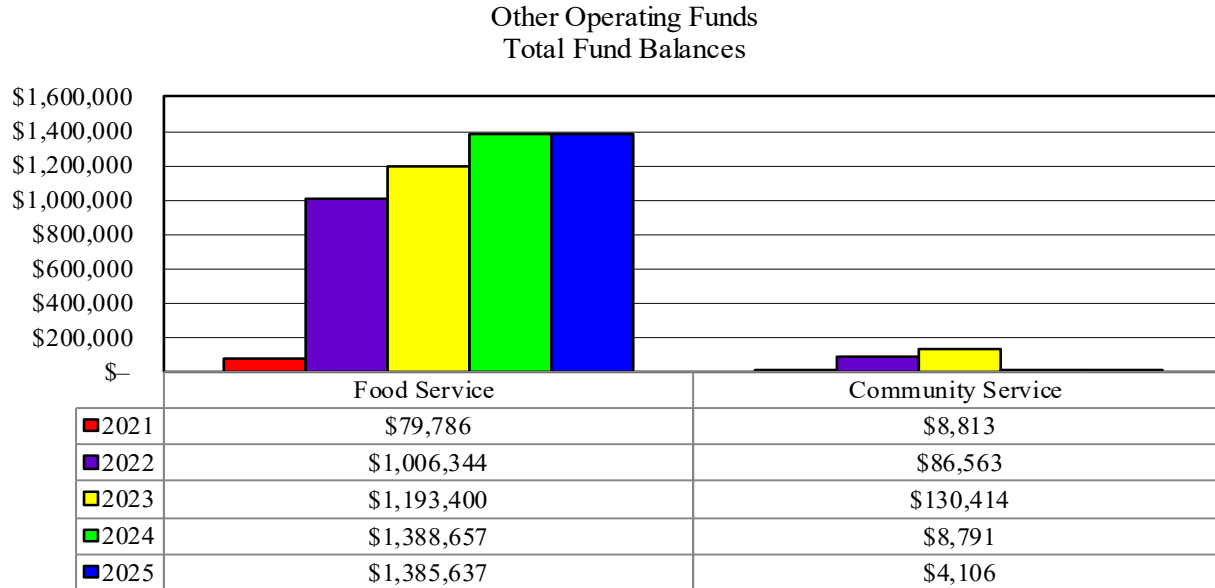
Total General Fund expenditures totaled \$100,460,103 for the year ended June 30, 2025, which was \$2,332,075 (2.3 percent) under the final budget and \$13,662,370 (15.7 percent) more than the prior year.

Salary and benefit-related charges, which account for 66.8 percent of General Fund expenditures, increased by \$4,590,782 (7.3 percent) and were \$309,610 (0.5 percent) over amounts planned in the budget. Spending for employee benefits was slightly more than projected in the final budget. The increase over the prior year was anticipated with contractual improvements and staffing changes.

Spending was less than budget in purchased services, supplies, and capital accounting for the overall savings compared to the final projection. Spending increased in each category presented in the above table. The largest change over the prior year was in supplies for equipment and materials as amended in the budget with the use of resources the District had previously assigned for this purpose.

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 reported a fund balance decrease of \$3,020 from the prior year, compared to a budgeted increase of \$50,000. Food Service Special Revenue Fund revenue sources were \$203,045 under budget, while expenditures were under budget by \$147,058. The Food Service Special Revenue Fund had a year-end fund balance of \$1,385,637, representing 31.5 percent of annual expenditures. Revenues were under budget in meal sales and with less state sources than anticipated. Expenditures were under budget with less spending on supplies and materials for food costs than planned in the budget.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund reported a decrease in fund balance of \$4,685 from the prior year, compared to a budgeted increase of \$24,181. Revenues were \$26,538 over budget and expenditures were over budget by \$55,404. The Community Service Special Revenue Fund had a year-end fund balance of \$4,106, representing 0.1 percent of annual expenditures. Conservative budgeting for program participation levels contributed to the difference, compared to projected revenue amounts; however, spending more than budget for salaries more than offset the favorable variance in total revenues.

It is critical that Food Service and Community Service Special Revenue Funds be self-sustaining, so as not to place additional burden on General Fund operations. The District should review upcoming capital needs of the child nutrition and community service operations and incorporate that information in establishing an optimal level of fund balance that is also within state and federal fund balance limits.

Debt Service Fund

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 \$2,788,200 restricted for future debt service payments.

Total fund balance in the Debt Service Fund increased by \$264,139 in the current year, compared to the \$464,623 increase anticipated in the budget. The District made the final payment on the OPEB bonds and closed the OPEB debt service account during the current fiscal year.

Proprietary Funds – Internal Service Funds

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

	June 30,		
	2023	2024	2025
Operating revenue			
Charges for services	\$ 6,324,692	\$ 6,692,325	\$ 7,065,454
Operating expenses			
Health benefit claims	5,909,967	6,712,666	8,394,284
Dental benefit claims	525,795	546,667	613,522
Total operating expenses	6,435,762	7,259,333	9,007,806
Operating income (loss)	(111,070)	(567,008)	(1,942,352)
Nonoperating revenue			
Investment earnings (charges)	172,864	321,808	245,465
Change in net position	61,794	(245,200)	(1,696,887)
Net position			
Beginning of year	6,125,379	6,187,173	5,941,973
End of year	\$ 6,187,173	\$ 5,941,973	\$ 4,245,086

Post-Employment Benefits Trust Fund

The District has established a Post-Employment Benefits Trust Fund to account for an irrevocable trust account established to finance the District's liability for post-employment healthcare benefits. At year-end, trust net position of \$6,624,832 is available to pay these benefits.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

	June 30,		Change
	2025	2024	
Net position – governmental activities			
Total fund balances – governmental funds	\$ 45,043,356	\$ 51,335,400	\$ (6,292,044)
Total capital assets, net of depreciation	133,005,513	132,159,351	846,162
Long-term liabilities, excluding pensions and OPEB	(93,453,865)	(90,285,689)	(3,168,176)
Pension adjustments	(42,346,194)	(43,523,292)	1,177,098
OPEB adjustments	(1,398,634)	(928,128)	(470,506)
Other adjustments	2,148,386	3,560,409	(1,412,023)
Total net position – governmental activities	<u>\$ 42,998,562</u>	<u>\$ 52,318,051</u>	<u>\$ (9,319,489)</u>
Net position			
Net investment in capital assets	\$ 43,877,348	\$ 40,965,930	\$ 2,911,418
Restricted	13,605,063	11,559,942	2,045,121
Unrestricted	<u>(14,483,849)</u>	<u>(207,821)</u>	<u>(14,276,028)</u>
Total net position	<u>\$ 42,998,562</u>	<u>\$ 52,318,051</u>	<u>\$ (9,319,489)</u>

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

Total net position decreased by \$9,319,489 compared to the prior year, which includes a change in accounting principle for compensated absences that reduced net position by \$11,227,203. The District's net investment in capital assets increased \$2,911,418 this year. The change in this category of net position typically depends on the relationship of the rate at which the District is adding additional capital assets, the rate capital assets are being depreciated, and how that relates to the rate at which the District is repaying the debt issued to purchase or construct those assets. The increases the District has seen in recent years have also been impacted by district improvement projects completed without issuing debt.

The change in restricted net position was due to an increase in amounts restricted for capital asset acquisition, net OPEB asset, debt service, community service, and other state funding restrictions. The change in unrestricted net position is due to changes in the District's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association pension plan liabilities and related deferments. The financial activity of the General Fund and combined internal service funds, as previously discussed, also contributed to the change in unrestricted net position. Another major factor was the change in accounting for compensated absences that reduced unrestricted net position compared to the prior year.

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.