# Management Report

for

Independent School District No. 280
Richfield, Minnesota

June 30, 2023

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the School Board and Management of
Independent School District No. 280
Richfield, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 280, Richfield, Minnesota's (the District) financial statements for the year ended June 30, 2023. We have organized this report into the following sections:

- Audit Summary
- Financial Trends in Public Education in Minnesota
- Financial Trends of Your District
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the District, management, and those with responsibility for oversight of the District's financial reporting process comments resulting from our audit and information relevant to school district financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 20, 2023

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## AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

### OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS* (UNIFORM GUIDANCE)

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

### PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

### AUDIT OPINION AND FINDINGS

Based on our audit of the District's basic financial statements for the year ended June 30, 2023:

- We have issued an unmodified opinion on the District's basic financial statements.

- 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 that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.

- The results of our testing indicated that the District has complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs

- We reported one deficiency in the District's internal controls over compliance that we considered to be a significant deficiency with the types of compliance requirements that could have a direct and material effect on each of its major federal programs. For the child nutrition cluster federal program, the District did not have sufficient controls in place to assure that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred.

- We reported one finding based on our testing of the District's compliance with Minnesota laws and regulations. One of 25 claims tested was not paid within 35 days of the receipt of goods or services, or the invoice for goods or services, as required by Minnesota Statutes § 471.425.

## 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, 2023, 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 2022-001 – Financial statement findings, timeliness of cash reconciliations.

Based on testing performed as part of our fiscal 2023 audit, appropriate corrective action was taken for the finding and no similar finding was reported 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, 2023. However, the District implemented the following governmental accounting standard during the year:

> The District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), during fiscal year ended June 30, 2023. This standard changed the way SBITA transactions are reported by the governmental entities. However, implementation of this standard did not have a material effect on the District's current year financial statements.

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 Minnesota Department of Education (MDE). Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the District has closed its financial records. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Position for severance benefits payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies, primarily described in GASB Statement Nos. 68, 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 and amortization of capital assets involves estimates pertaining to useful lives.

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

We evaluated the key factors and assumptions used by management to develop the estimates discussed above and on the previous page in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

## DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

## DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated December 20, 2023.

## MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis and the pension and OPEB-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, the Schedule of Expenditures of Federal Awards, and the Uniform Financial Accounting and Reporting Standards Compliance Table accompanying the financial statements, which are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and other district information, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## FUNDING TRENDS IN PUBLIC EDUCATION IN MINNESOTA

This section provides 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 two fiscal years. The 2023 Legislature approved per pupil increases of $275 for fiscal 2024 and $143 for fiscal 2025. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the "roll-in" of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual districts. The $529 increase in 2015 was offset by changes to pupil weightings and the general education aid formula that resulted in an increase equivalent to approximately $105, or 2.00 percent, state-wide.

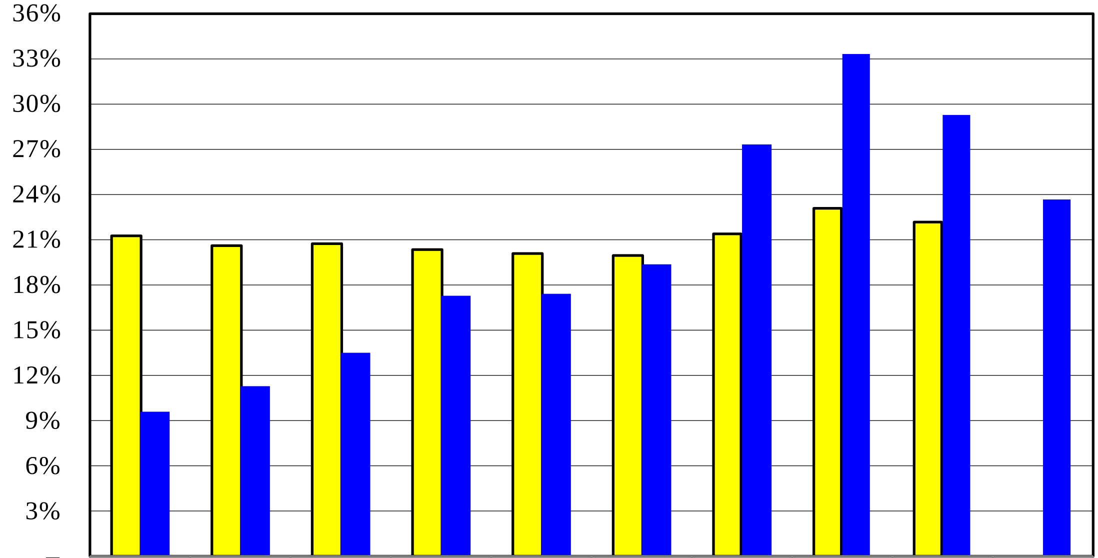
| | Formula Allowance | |
|---|---|---|
| Fiscal Year Ended June 30, | Amount | Percent Increase |
| 2014 | $ 5,302 | 1.50 % |
| 2015 | $ 5,831 | 2.00 % |
| 2016 | $ 5,948 | 2.00 % |
| 2017 | $ 6,067 | 2.00 % |
| 2018 | $ 6,188 | 2.00 % |
| 2019 | $ 6,312 | 2.00 % |
| 2020 | $ 6,438 | 2.00 % |
| 2021 | $ 6,567 | 2.00 % |
| 2022 | $ 6,728 | 2.45 % |
| 2023 | $ 6,863 | 2.00 % |
| 2024 | $ 7,138 | 4.00 % |
| 2025 | $ 7,281 | 2.00 % |

For fiscal 2026 and beyond, the actual increase will be equal to the Consumer Price Index-Urban (CPI-U), with a floor of 2.00 percent and a cap of 3.00 percent. CPI-U is determined based upon the prior two fourth-quarter totals. The inclusion of inflationary increases to this formula does not prevent future legislative increases from being approved.

**STATE-WIDE SCHOOL DISTRICT FINANCIAL TRENDS**

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




| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| State-Wide | 21.2% | 20.6% | 20.7% | 20.3% | 20.0% | 19.9% | 21.3% | 23.0% | 22.2% | – |
| ISD No. 280 | 9.6% | 11.3% | 13.4% | 17.3% | 17.4% | 19.4% | 27.3% | 33.3% | 29.2% | 23.7% |

Note: State-wide information is not available for fiscal 2023.

The calculation above reflects only the unrestricted fund balance of the General Fund, and the corresponding expenditures, which is the same method the state uses for the calculation of statutory operating debt. We have also included the comparable percentages for your district.

The average unrestricted fund balance as a percentage of operating expenditures maintained by Minnesota school districts decreased gradually from 21.2 percent at the end of fiscal 2014 to 19.9 percent at the end of fiscal 2019, a period of relative stability in the state's economic condition and school funding. This ratio began rising again during the fiscal years impacted by the COVID-19 pandemic, increasing to 23.0 percent at the end of fiscal 2021. In 2022 the state-wide ratio decreased to 22.2 percent as districts returned to more traditional learning models and program operations with the relaxation of pandemic restrictions.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 23.7 percent at the end of the current year.

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

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

**Governmental Funds Revenue per Student (ADM) Served**

| | State-Wide | | Metro Area | | ISD No. 280 – Richfield | | |
|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2023 |
| General Fund | | | | | | | |
| Property taxes | $ 2,576 | $ 2,645 | $ 3,411 | $ 3,506 | $ 4,262 | $ 4,157 | $ 4,368 |
| Other local sources | 438 | 571 | 323 | 446 | 157 | 239 | 405 |
| State | 10,514 | 10,504 | 10,517 | 10,536 | 10,869 | 11,092 | 11,566 |
| Federal | 992 | 1,335 | 956 | 1,397 | 1,164 | 2,055 | 2,002 |
| Total General Fund | 14,520 | 15,055 | 15,207 | 15,885 | 16,452 | 17,543 | 18,341 |
| Special revenue funds | | | | | | | |
| Food Service | 576 | 803 | 568 | 770 | 629 | 888 | 752 |
| Community Service | 612 | 731 | 684 | 836 | 455 | 499 | 513 |
| Debt Service Fund | 1,512 | 1,508 | 1,549 | 1,537 | 1,839 | 1,698 | 1,807 |
| Total revenue | $ 17,220 | $ 18,097 | $ 18,008 | $ 19,028 | $ 19,375 | $ 20,628 | $ 21,413 |
| ADM served per MDE School District Profiles Report (current year estimated) | | | | | 4,156 | 4,161 | 4,087 |

Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.

Source of state-wide and metro area data: School District Profiles Report published by the MDE

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

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

The District earned approximately $87.5 million in the governmental funds reflected above in fiscal 2023, an increase of $1,686,545 (2.0 percent) from the prior year, or $785 per ADM with declining enrollment. Total General Fund revenue increased $1,968,452 ($798 per ADM). Property taxes were up as approved with the annual levy process. Other local sources increased over the prior year, largely due to more investment earnings. State revenues were up with the increase in the basic formula allowance as previously discussed, along with more funding for state special education. Federal sources in the General Fund were down with less pandemic-related funding entitlements recognized in the current year. Food service revenues were down with the end of the federal program providing free meals for all students the District's child nutrition program operated under in the previous year. Debt Service Fund revenue per capita was up in the current year, due to a planned increase in the regular debt service levy and improved investment earnings.

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

**Governmental Funds Expenditures per Student (ADM) Served**

| | State-Wide | | Metro Area | | ISD No. 280 – Richfield | | |
|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2023 |
| General Fund | | | | | | | |
| Administration and district support | $ 1,184 | $ 1,249 | $ 1,205 | $ 1,300 | $ 1,171 | $ 1,251 | $ 1,414 |
| Elementary and secondary regular instruction | 6,198 | 6,494 | 6,527 | 6,838 | 6,909 | 7,252 | 7,763 |
| Vocational education instruction | 197 | 210 | 179 | 191 | 110 | 189 | 147 |
| Special education instruction | 2,626 | 2,724 | 2,792 | 2,883 | 2,826 | 3,035 | 3,351 |
| Instructional support services | 812 | 816 | 917 | 939 | 971 | 1,162 | 1,025 |
| Pupil support services | 1,228 | 1,429 | 1,285 | 1,558 | 1,435 | 2,280 | 2,422 |
| Sites, buildings, and other | 1,083 | 1,113 | 1,052 | 1,076 | 1,621 | 1,752 | 1,758 |
| Total General Fund – noncapital | 13,328 | 14,035 | 13,957 | 14,785 | 15,043 | 16,921 | 17,880 |
| General Fund capital expenditures | 793 | 876 | 815 | 897 | 669 | 699 | 1,120 |
| Total General Fund | 14,121 | 14,911 | 14,772 | 15,682 | 15,712 | 17,620 | 19,000 |
| Special revenue funds | | | | | | | |
| Food Service | 532 | 670 | 522 | 659 | 561 | 732 | 861 |
| Community Service | 610 | 689 | 682 | 774 | 488 | 542 | 512 |
| Debt Service Fund | 1,576 | 1,599 | 1,609 | 1,561 | 1,744 | 1,754 | 1,775 |
| Total expenditures | $ 16,839 | $ 17,869 | $ 17,585 | $ 18,676 | $ 18,505 | $ 20,648 | $ 22,148 |
| ADM served per MDE School District Profiles Report (current year estimated) | | | | | 4,156 | 4,161 | 4,087 |

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 approximately $90.5 million in the governmental funds reflected above in fiscal 2023, an increase of $4,596,374 (5.3 percent) from the prior year, or $1,500 per ADM. General Fund expenditures increased $1,380 per ADM, mainly in elementary and secondary regular instruction ($511 per ADM), special education instruction ($316 per ADM), and capital expenditures ($421 per ADM). Food Service Special Revenue Fund increased $129 per ADM due to increases in personnel and food costs, while Community Service Special Revenue Fund costs decreased $30 per ADM.

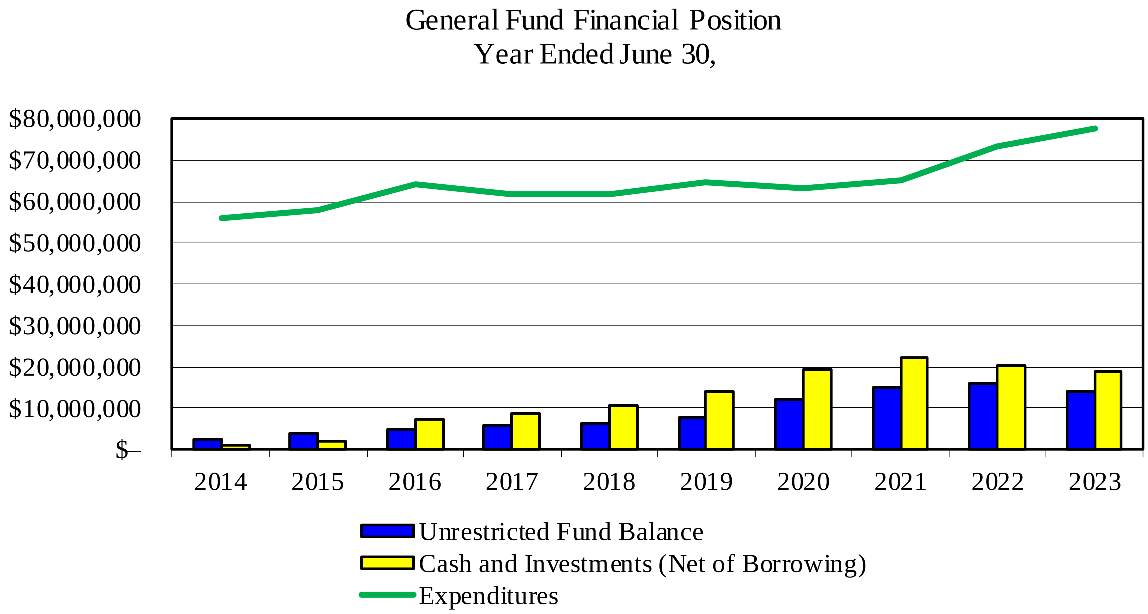
## SUMMARY

The COVID-19 pandemic caused numerous financial and operational challenges for districts in recent years; creating instability in student populations, requiring numerous shifts in the delivery of educational services, and resulting in substantial new and unfamiliar federal revenue streams, to name a few. District school boards, administrators, and employees continue to face many challenges, as districts strive to provide a safe and effective learning experience for their students in this uncertain and unprecedented environment.

## 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's General Fund ended fiscal year 2023 with a total fund balance of $17,529,637. Total fund balance decreased $1,809,948 during the 2023 fiscal year, compared to a decrease projected in the final budget of $835,743.

General Fund cash and investments at year-end (net of interfund borrowing) was $18,907,240, a decrease of $1,557,204 from last year.

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

| | June 30, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| Nonspendable fund balances | $ 931,474 | $ 33,813 | $ 458,242 | $ 69,896 | $ 77,780 |
| Restricted fund balances (1) | 2,482,106 | 3,964,677 | 4,120,720 | 3,530,497 | 3,634,620 |
| Unrestricted fund balances | | | | | |
| Assigned | 3,326,097 | 5,278,307 | 3,834,622 | 4,784,958 | 5,375,308 |
| Unassigned | 4,545,037 | 6,920,954 | 11,208,090 | 10,954,234 | 8,441,929 |
| Total fund balance | $ 11,284,714 | $ 16,197,751 | $ 19,621,674 | $ 19,339,585 | $ 17,529,637 |
| Unrestricted fund balances as a percentage of expenditures | 12.2% | 19.2% | 23.0% | 21.5% | 17.8% |
| Unassigned fund balances as a percentage of expenditures | 7.0% | 10.9% | 17.2% | 14.9% | 10.9% |

(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.

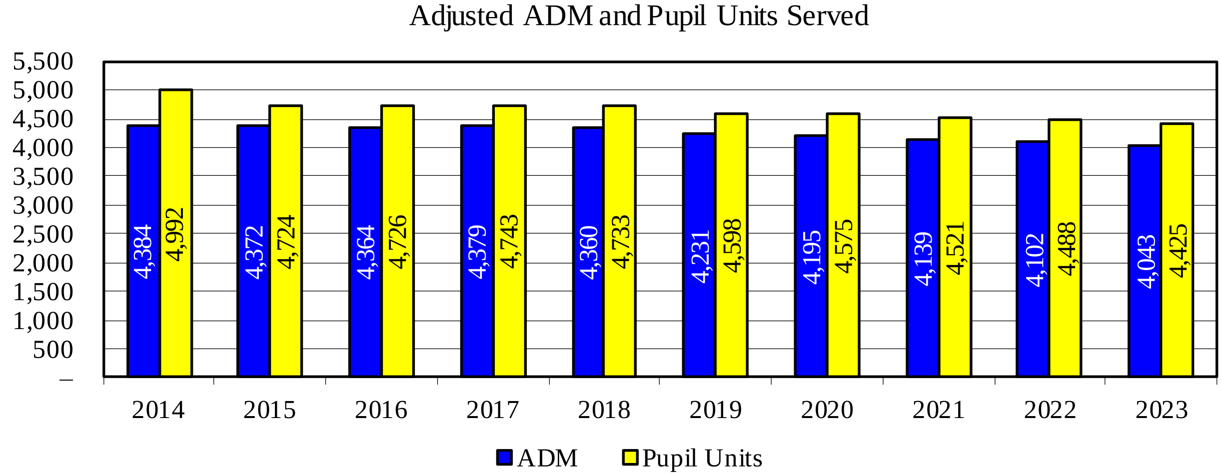
The table above reflects the total General Fund unrestricted fund balance and percentages, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula.

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.

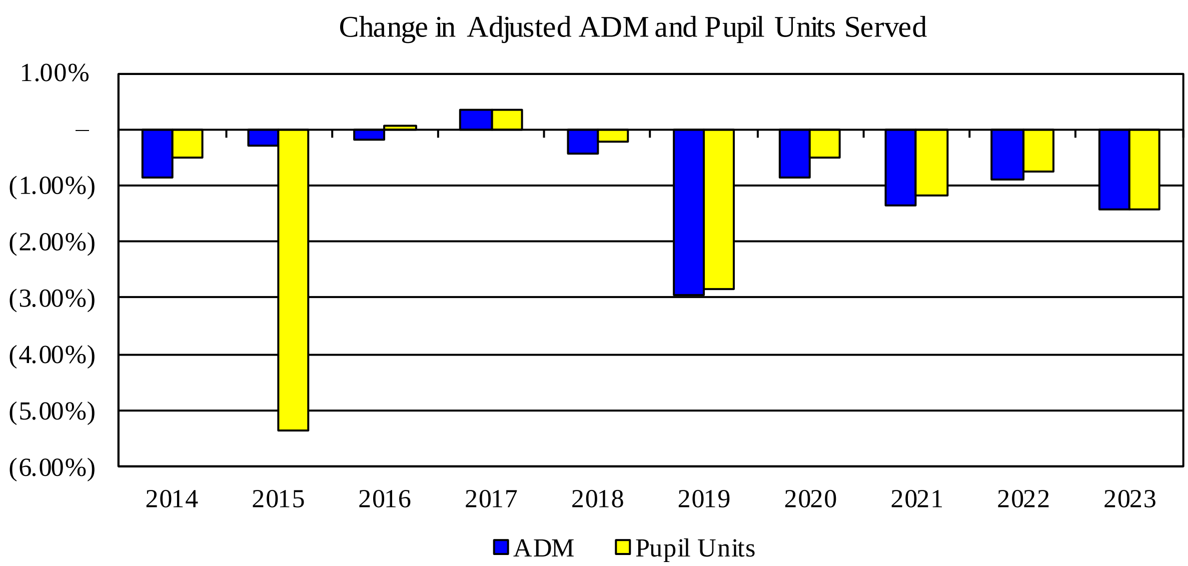
General Fund unassigned fund balance as a percentage of expenditures is one key measure of a school district's financial health. At June 30, 2023, the unassigned fund balance in the General Fund represented 10.9 percent of annual expenditures, or about six weeks of operations assuming level spending throughout the year.

**AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS**

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




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



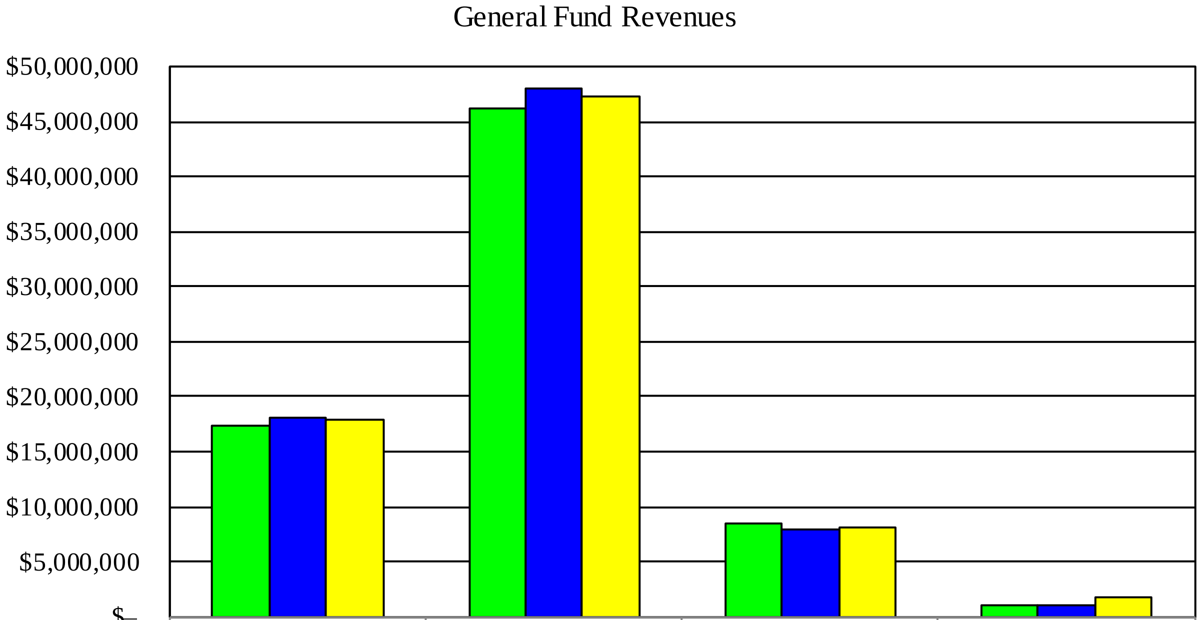

The change in pupil units for 2015 includes the effect of legislative reductions to pupil units.

ADM is a measure of 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 ADM served by the District for 2023 is estimated to be 4,043, a decrease of about 59 from the prior year. The pupil units generated from this ADM were 4,425, a decrease of about 63 pupil units from the prior year.

## GENERAL FUND REVENUES

The following graph summarizes the District's General Fund revenues for 2023:




| | Property Taxes | State Sources | Federal Sources | Other |
|---|---|---|---|---|
| Prior Year | $17,296,011 | $46,153,497 | $8,551,970 | $992,495 |
| Budget | $18,045,678 | $48,090,367 | $7,909,682 | $1,093,315 |
| Actual | $17,853,746 | $47,269,721 | $8,182,833 | $1,656,125 |

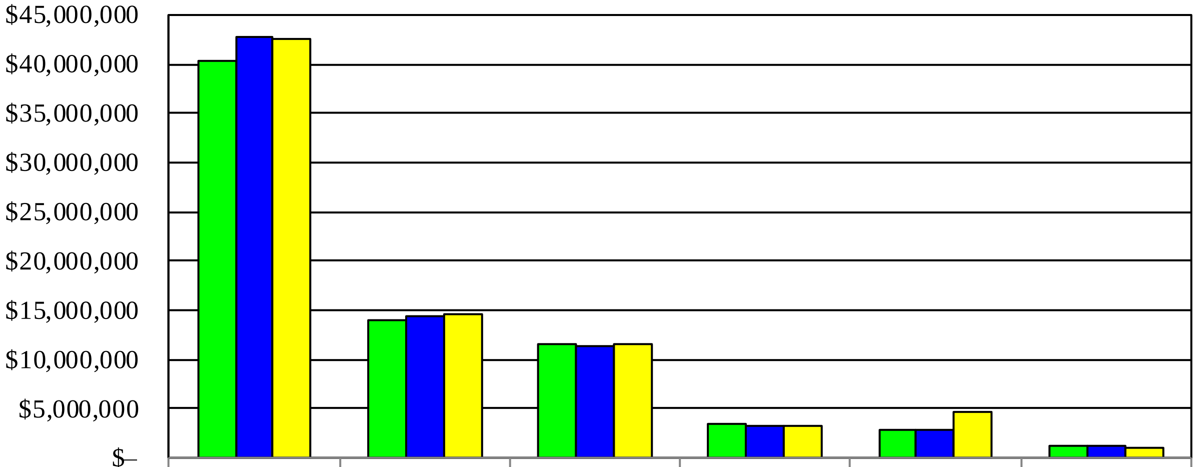
Total General Fund revenues were $74,962,425 for the year ended June 30, 2023, which was $176,617 (0.2 percent) under the final budget. Revenue from state sources were under budget by $820,646, mainly in general education aid due to lower enrollment than anticipated. Revenues from other local sources, as shown above (including student fees, admissions, gifts, donations, tuition, rental, and investment income), were $562,810 over budget, mainly due to higher investment earnings than projected.

General Fund total revenues were $1,968,452 (2.7 percent) higher than the previous year. Property taxes were $557,735 higher than last year, due to an increase in the levy. State sources increased $1,116,224, due to higher than anticipated state special education aid. Other revenues were up $663,630 from the prior year, due to an increase in investment earnings. Federal sources were less than the prior year with the District utilizing less pandemic-related federal funds in the current year.

## GENERAL FUND EXPENDITURES

The following graph presents the District's General Fund expenditures for 2023:

General Fund Expenditures



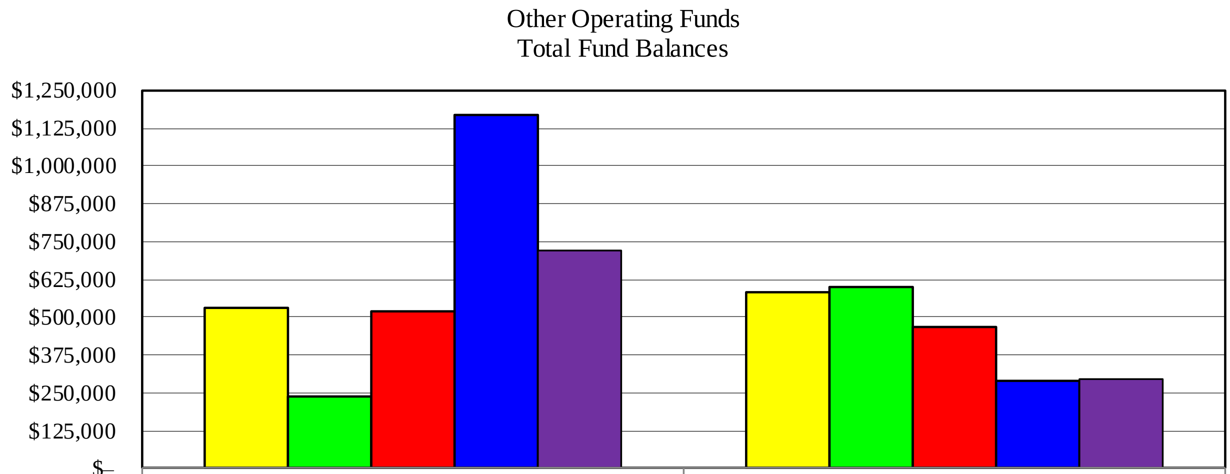

| | Salaries | Employee Benefits | Purchased Services | Supplies | Capital | Other |
|---|---|---|---|---|---|---|
| Prior Year | $40,284,587 | $14,074,329 | $11,575,911 | $3,355,534 | $2,907,200 | $1,122,005 |
| Budget | $42,826,066 | $14,487,809 | $11,262,942 | $3,337,444 | $2,895,921 | $1,253,603 |
| Actual | $42,666,507 | $14,518,829 | $11,597,467 | $3,313,364 | $4,577,405 | $976,681 |

Total General Fund expenditures were $77,650,253 for the year ended June 30, 2023, which was $1,586,468 (2.1 percent) over the final budget. Personnel costs (salaries and benefits) were $128,539 under budget, mainly in the pupil support services and special education instruction programs. Purchased services were $334,525 over budget, mainly in pupil support (transportation) services. Capital expenditures were $1,681,484 over budget, due to the timing of projects and a new lease for space valued at $823,971, which was offset by an "other" financing source for the same amount.

Total General Fund expenditures were $4,330,687 (5.9 percent) more than the prior year. The largest changes from the prior year occurred in salaries and benefits and capital expenditures. Salaries and benefits were $2,826,420 (5.2 percent) higher than the previous year as projected in the budget, mainly due to contractual increases for salaries and inflationary increases in benefits. Capital expenditures were $1,670,205 higher than the previous year due to the timing of projects and the new lease agreement, which was not anticipated in 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 | Community Service Special Revenue |
|---|---|---|
| 2019 | $532,885 | $584,749 |
| 2020 | $237,508 | $600,659 |
| 2021 | $521,062 | $466,817 |
| 2022 | $1,169,574 | $287,735 |
| 2023 | $722,453 | $292,920 |

### Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2023 with a fund balance decrease of $447,121, compared to a budgeted decrease of $583,298. Food service revenue was $3,072,378, which was over budget by $154,230, mainly in federal revenue. Revenue decreased $621,003 from the prior year, as the District operated a "Seamless Summer Option" in fiscal 2022 that provided free federally funded meals to all students at the highest available reimbursement rates. Expenditures of $3,519,501 were over budget by $18,055, mainly in salaries and benefits due to hiring additional staff. The ending fund balance of $722,453 represents 20.5 percent of current year expenditures.

### Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended fiscal 2023 with a fund balance increase of $5,185, compared to a budgeted decrease of $7,275. Revenues of $2,097,545 were over budget by $58,869. Expenditures of $2,092,360 were over budget by $46,409, mainly in personnel costs and purchased services. The ending fund balance of $292,920 in this fund represents 14.0 percent of current year expenditures.

Over the years, we have emphasized to our clients that food service and community service operations should be self-sustaining and should not become an additional burden on general education funds. The District has been able to maintain stable fund balances in both funds in recent years.

**Capital Projects – Building Construction Fund**

The Capital Projects – Building Construction Fund ended the year with a fund balance increase of $2,266,591, compared to a projected increase of $2,038,557. The planned increase was due to the District issuing 2022A G.O. school building bonds with a par value of $2,185,000 to finance projects that will be completed in future years. At year-end, a fund balance of $3,227,953 remains, restricted for 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 restricted to the payment of outstanding debt obligations of the District. At June 30, 2023, the Debt Service Fund had a fund balance of $2,039,132, an increase of $163,474 from the prior year.

**Internal Service Funds**

The District maintains two internal service funds to account for and finance the uninsured risk of loss for its employee medical and dental insurance plans. At June 30, 2023, the District has a net position of $3,821,400 accumulated to finance future medical and dental benefits for participating employees. Net position increased $272,680 from the previous year-end, due to decreases in both medical and dental claims.

**Post-Employment Benefits Trust Fund**

The District's Post-Employment Benefits Trust Fund is used to account for an irrevocable trust account established to finance the District's liability for post-employment healthcare benefits. During the year, this fund paid out $484,271 for benefits that would have otherwise been paid from the District's governmental funds. At year-end, the trust's net position of $7,289,408 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, 2023 | June 30, 2022 | Change |
|---|---|---|---|
| Net position – governmental activities | | | |
| Total fund balances – governmental funds | $ 23,812,095 | $ 23,633,914 | $ 178,181 |
| Capital assets, net | 154,515,503 | 158,253,097 | (3,737,594) |
| Bonds, leases, and financed purchases | (136,840,421) | (138,876,864) | 2,036,443 |
| Pension liabilities, net of deferments | (47,029,821) | (58,699,719) | 11,669,898 |
| OPEB liability, net of deferments | (8,882,451) | (10,218,286) | 1,335,835 |
| Other | (51,006) | (906,267) | 855,261 |
| Total net position – governmental activities | $ (14,476,101) | $ (26,814,125) | $ 12,338,024 |
| Net position | | | |
| Net investment in capital assets | $ 27,946,240 | $ 29,113,661 | $ (1,167,421) |
| Restricted | 5,887,985 | 6,026,852 | (138,867) |
| Unrestricted | (48,310,326) | (61,954,638) | 13,644,312 |
| Total net position | $ (14,476,101) | $ (26,814,125) | $ 12,338,024 |

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

Total net position increased by $12,338,024 during fiscal 2023.

Net investment in capital assets decreased $1,167,421 this year. The change in this category of net position typically depends on the relationship between the rate at which the District is adding additional capital assets, the rate capital assets are being depreciated and amortized, and how that compares to the rate at which the District is repaying the debt issued to purchase or construct those assets. Restricted net position decreased $138,867 from the prior year, mainly in resources restricted for food service. Unrestricted net position improved by $13,644,312, mainly due to changes in long-term pension and OPEB liabilities.

## ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years.

### GASB STATEMENT NO. 100, *ACCOUNTING CHANGES AND ERROR CORRECTIONS—AN AMENDMENT OF GASB STATEMENT NO. 62*

The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The requirements of this statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

### GASB STATEMENT NO. 101, *COMPENSATED ABSENCES*

The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used, but not yet paid in cash, or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled.

This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used, but not yet paid or settled, should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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