Management Report

for

Independent School District No. 283
St. Louis Park, 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. 283
St. Louis Park, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 283, St. Louis Park, 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
February 9, 2024

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AUDIT SUMMARY

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 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.

The District is subject to a Single Audit of its federal awards expenditures for the year ended June 30, 2023, which is required to be performed in accordance with the Uniform Guidance. It was originally planned that the Single Audit would be completed and issued along with the District's financial statements audit. Due to the significant increase in pandemic-related federal funding received by Minnesota school districts this year, the Minnesota Department of Education (MDE) has extended the due date for Single Audits to coincide with the federal deadline of March 31, 2024. The District plans to issue its audited Schedule of Expenditures of Federal Awards and the related reports separately by this deadline.

AUDIT OPINION AND FINDINGS

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

- 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. 96, *Subscription-Based Information Technology Arrangements*, during the year. Our opinion was not modified with respect to this matter.

- We reported no deficiencies in the District's internal control over financial reporting that we considered to be material weaknesses. 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 three findings based on our testing of the District's compliance with Minnesota laws and regulations:

    1. Minnesota Statutes § 118A.03 requires that if the District's deposits exceed federal deposit insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for the District's accounts at one time we tested during the year ended June 30, 2023. This requirement was met on June 30, 2023.

    2. 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 3 of 40 disbursements tested were not paid within the statutory timeline.

    3. Minnesota Statutes require that each contract with an estimated value from $25,000 to $175,000, be made either upon sealed bids or by direct negotiation, by obtaining two or more quotations for the purchase or sale when possible, and without advertising for bids or otherwise complying with the requirements of competitive bidding. For one of three purchases tested to which this requirement applied, the District did not follow this process or retain documentation to support that proper procedures were completed. While this purchase was for a piece of equipment for which the District wished to maintain brand and maintenance consistency, the requirement for additional quotes was not met.

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 the prior year audit. We reported the following finding that was corrected by the District in the current year:

- In the prior year, we reported a Minnesota legal compliance finding for Minnesota Statutes that require unclaimed property held for more than three years to be reported and paid to the state Commissioner of Commerce each year.

OTHER RECOMMENDATIONS

During the audit procedures for the year ended June 30, 2023, we noted the District's internal controls over purchasing card (P-card) transactions need improvement. During our testing, we noted numerous P-card transactions submitted for payment that lacked appropriate back-up documentation, including purchase receipts. We also noted formal approval of P-card transactions was not documented on invoices submitted for payment. We recommend the District continue its review of internal controls in this area and continue its enforcement of improved internal controls to assure proper documentation of all P-card transactions (are on file) and all transactions are being approved by an appropriate level of management.

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:

> As described in Note 1 of the notes to the basic financial statements, the District implemented 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 District, but did not result in a restatement of beginning net position in the current year.

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

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

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

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

> Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services, which are computed using formulas derived by the 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 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, and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

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

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

We evaluated the key factors and assumptions used by management to develop the estimates discussed above 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 February 9, 2024.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

OTHER AUDIT FINDINGS OR ISSUES

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

OTHER MATTERS

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

We were engaged to report on the supplementary information 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, which accompanies the financial statements, but is 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.

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FINANCIAL TRENDS IN PUBLIC EDUCATION IN MINNESOTA

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

BASIC GENERAL EDUCATION REVENUE

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

The table below presents a summary of the formula allowance for the past decade and as approved for the next 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.

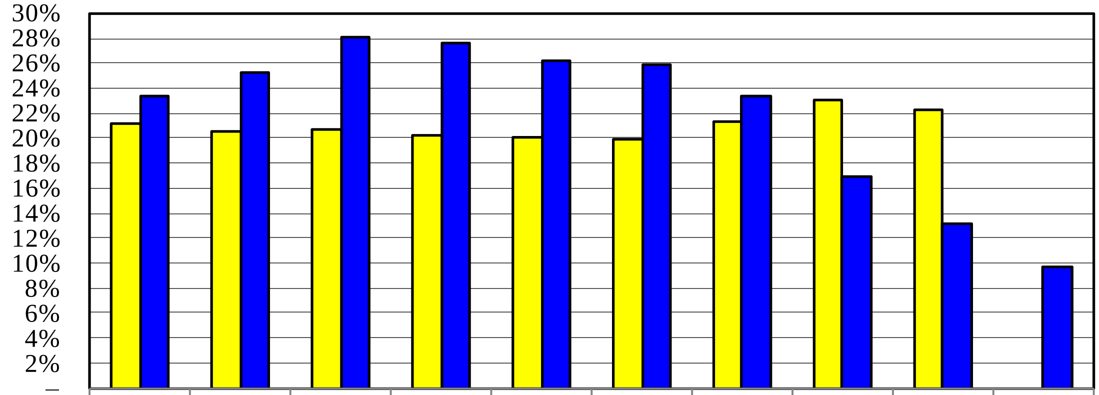
	Formula Allowance	
Fiscal Year Ended June 30,	Amount	Percent Increase
2014	$ 5,302	1.50 %
2015	$ 5,831	2.00 %
2016	$ 5,948	2.00 %
2017	$ 6,067	2.00 %
2018	$ 6,188	2.00 %
2019	$ 6,312	2.00 %
2020	$ 6,438	2.00 %
2021	$ 6,567	2.00 %
2022	$ 6,728	2.45 %
2023	$ 6,863	2.00 %
2024	$ 7,138	4.00 %
2025	$ 7,281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



	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. 283	23.4%	25.3%	28.1%	27.6%	26.2%	25.9%	23.4%	16.9%	13.2%	9.7%

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 9.7 percent at the end of the current year, as compared to 13.2 percent at June 30, 2022.

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. 283 – St. Louis Park		
	2021	2022	2021	2022	2021	2022	2023
General Fund							
Property taxes	$ 2,576	$ 2,645	$ 3,411	$ 3,506	$ 4,603	$ 4,432	$ 4,931
Other local sources	438	571	323	446	225	210	396
State	10,514	10,504	10,517	10,536	10,043	10,350	10,755
Federal	992	1,335	956	1,397	995	1,662	735
Total General Fund	14,520	15,055	15,207	15,885	15,866	16,654	16,817
Special revenue funds							
Food Service	576	803	568	770	343	646	540
Community Service	612	731	684	836	1,561	1,661	1,838
Debt Service Fund	1,512	1,508	1,549	1,537	2,642	2,817	2,921
Total revenue	$ 17,220	$ 18,097	$ 18,008	$ 19,028	$ 20,412	$ 21,778	$ 22,116
ADM served per MDE School District Profiles Report (current year estimated)					4,486	4,493	4,384

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 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 $96.9 million in the governmental funds reflected above in fiscal 2023, which is a decrease of about $0.9 million from the prior year. Total revenue per ADM served increased by $338 per student with the decrease in enrollment. Property tax revenue in the General Fund increased $499 per student, due to an increased levy. General Fund state aid revenues were $405 per student higher than last year, mainly due to the per pupil unit increase in the general education formula allowance, as well as increases in special education state aids. The increases were offset by a decrease from federal sources of $927 per student, due to the spend down of COVID-19 stimulus-related grant funds.

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. 283 – St. Louis Park		
	2021	2022	2021	2022	2021	2022	2023
General Fund							
Administration and district support	$ 1,184	$ 1,249	$ 1,205	$ 1,300	$ 1,700	$ 1,593	$ 1,786
Elementary and secondary regular instruction	6,198	6,494	6,527	6,838	7,204	7,556	7,753
Career and technical instruction	197	210	179	191	158	138	140
Special education instruction	2,626	2,724	2,792	2,883	2,940	2,766	3,101
Instructional support services	812	816	917	939	1,008	993	993
Pupil support services	1,228	1,429	1,285	1,558	1,457	1,913	1,833
Sites, buildings, and other	1,083	1,113	1,052	1,076	1,620	1,636	1,599
Total General Fund – noncapital	13,328	14,035	13,957	14,785	16,087	16,595	17,205
General Fund capital expenditures	793	876	815	897	534	474	326
Total General Fund	14,121	14,911	14,772	15,682	16,621	17,069	17,531
Special revenue funds							
Food Service	532	670	522	659	363	458	526
Community Service	610	689	682	774	1,564	1,658	1,726
Debt Service Fund	1,576	1,599	1,609	1,561	2,629	2,707	2,821
Total expenditures	$ 16,839	$ 17,869	$ 17,585	$ 18,676	$21,177	$21,892	$ 22,604
ADM served per MDE School District Profiles Report (current year estimated)					4,486	4,493	4,384

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 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's expenditures per ADM have been above the metro area average in recent years, mainly in General Fund operating, Community Service Special Revenue Fund, and Debt Service Fund expenditures.

The District spent approximately $99.1 million in the governmental funds reflected above in fiscal 2023, an increase of $727,440 (0.7 percent) from the prior year. On a per student basis, this represents an increase of $712. General Fund operating expenditures (excluding capital) increased $610 per student, mainly in elementary and secondary regular instruction ($197) for employee benefits and supplies and materials and special education instruction ($335 per pupil), mainly due to an increase in salaries and benefits.

SUMMARY

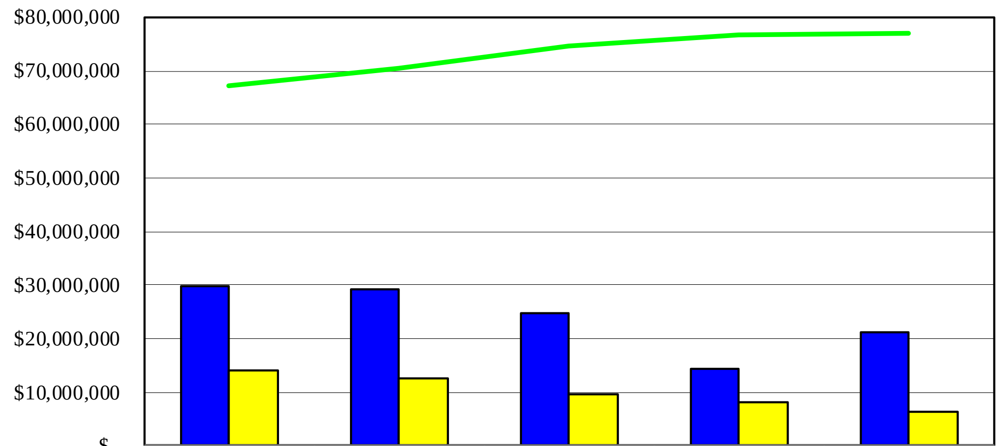
The COVID-19 pandemic caused numerous financial and operational challenges for districts in recent years; creating instability in student populations, requiring numerous shifts in the delivery of educational services, and resulted in substantial new and unfamiliar federal revenue streams, to name a few. Challenges remain, with tight labor markets, inflationary increases, and the end of many federal pandemic-related funding programs. District school boards, administrators, and employees continue to manage these issues, as districts strive to provide a safe and effective learning experience for their students.

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.

General Fund Financial Position
Year Ended June 30,



	2019	2020	2021	2022	2023
Cash and Inv. (net of borrowing)	$29,787,327	$29,264,490	$24,623,836	$14,428,319	$21,037,329
Unrestricted Fund Bal.	$14,061,705	$12,692,970	$9,698,327	$8,232,819	$6,231,719
Expenditures	$67,071,026	$70,377,881	$74,565,879	$76,698,481	$76,852,977

The District ended fiscal year 2023 with a General Fund cash balance of $21,037,329 (net of borrowing and interfund receivables and payables), an increase of $6,609,010 from the previous year. This increase is related to the change in salaries payable at June 30, 2023. Unrestricted fund balance (consisting of any assigned or unassigned fund balances) at year-end totaled $6,231,719, a decrease of $2,001,100.

In total, General Fund revenue and other financing sources were less than expenditures by $3,061,785. This compares to a budget that projected a decline in fund balance of $2,785,555. Revenues were higher than budget projections by $4,058,752, expenditures were higher than budget by $4,403,750, and other financing sources were higher than budget by $68,768.

GENERAL FUND COMPONENTS OF FUND BALANCE

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	$ 160,802	$ 209,734	$ 196,545	$ 294,027	$ 62,719
Restricted fund balances (1)	5,979,060	6,766,821	6,384,229	6,593,328	5,763,951
Unrestricted fund balances					
Assigned	3,422,803	4,239,796	2,763,949	3,853,266	1,174,285
Unassigned	10,638,902	8,453,174	6,934,378	4,379,553	5,057,434
Total fund balance	$ 20,201,567	$ 19,669,525	$ 16,279,101	$ 15,120,174	$ 12,058,389
Unrestricted fund balances as a percentage of expenditures	21.0%	18.0%	13.0%	10.7%	8.1%

(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.

Minimum Fund Balance Policy

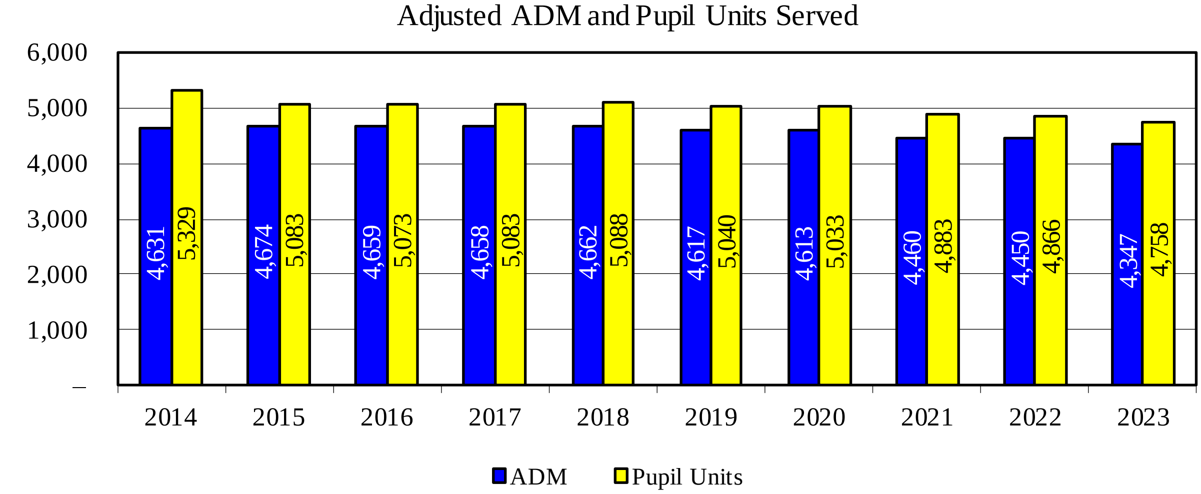
The School Board has a formally adopted a fund balance policy that establishes a desired unassigned General Fund balance. The policy states the District establishes a year-end minimum unassigned fund balance of 6.0 percent of subsequent year's General Fund noncategorical expenditures.

The unrestricted portion of the year-end fund balance (assigned and unassigned) was $6,231,719, which represents 8.1 percent of annual General Fund expenditures based on fiscal 2023 expenditure levels.

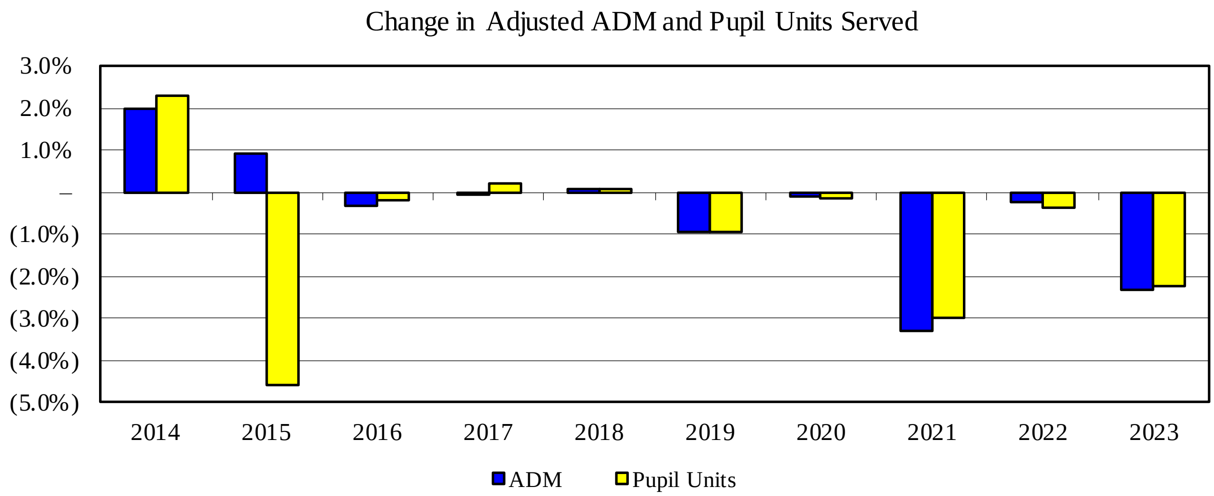
The unassigned fund balance, including assigned for subsequent year's budget, was 8.4 percent of General Fund noncategorical expenditures (per district policy) and is above the District's policy for year-end minimum amounts of unassigned fund balance of 6.0 percent.

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

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



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



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

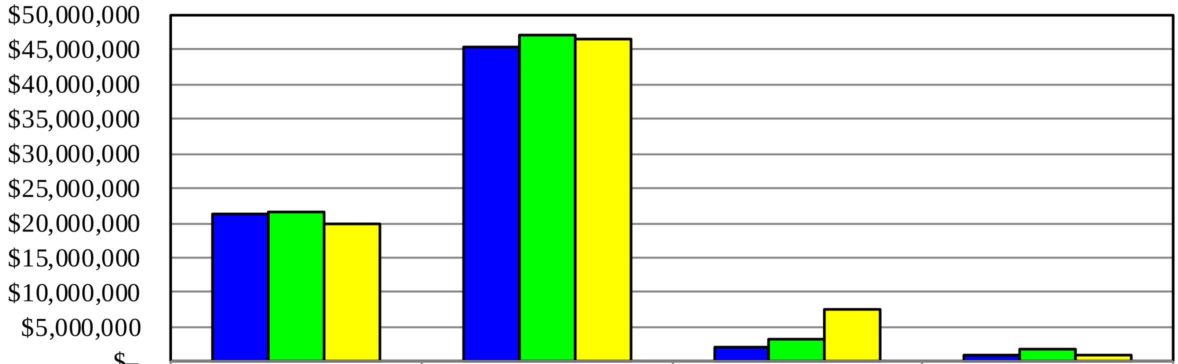
ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts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

The District served an estimated adjusted ADM of 4,347 in 2023, a decrease of 103 from the previous year. The number of pupil units served by the District for fiscal 2023 was 4,758, a decrease of 108 from the prior year.

GENERAL FUND REVENUES

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

General Fund Revenue



	Property Taxes	State Sources	Federal Sources	Other
Budget	$21,195,200	$45,481,800	$2,120,072	$866,600
Actual	$21,615,813	$47,149,379	$3,223,299	$1,733,933
Prior Year	$19,914,370	$46,502,457	$7,467,476	$945,395

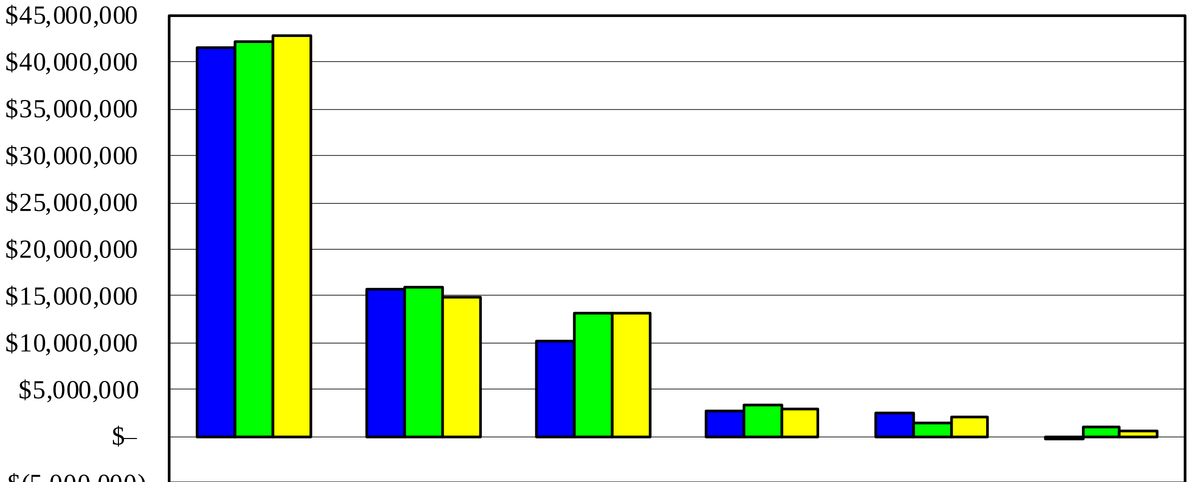
Total General Fund revenues were $73,722,424 for the year ended June 30, 2023, which was $4,058,752 (5.8 percent) over the final budget. The majority of this variance was due to conservative budgeting and receiving additional grants not anticipated in the final budget. State aid revenue was higher than budget by $1,667,579, mainly in special education state aid. Other revenue exceeded budgeted amounts by $503,614, the result of conservative budgeting. Property taxes exceeded budgeted amounts by $420,613, the result of miscellaneous tax-related collections exceeding projections. Lastly, investment earnings exceeded budgeted amounts, due to improved market conditions.

General Fund total revenues were $1,107,274 less than the previous year. The decrease in 2023 actual revenues was due to federal revenue decreasing $4,244,177, as a result of the decline in available COVID-19 stimulus-related entitlements in the current year. Property taxes increased $1,701,443 in the current year, the result of an increased levy and other tax-related collections. State aid revenue was $646,922 more than the prior year, mainly in special education state aid. Investment earnings were higher than the prior year by $546,666, due to improved market conditions.

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
Budget	$41,578,336	$15,664,019	$10,160,701	$2,706,877	$2,378,154	$(38,860)
Actual	$42,230,450	$15,849,322	$13,126,469	$3,265,175	$1,427,266	$954,295
Prior Year	$42,915,021	$14,914,030	$13,240,872	$2,898,025	$2,131,283	$599,250

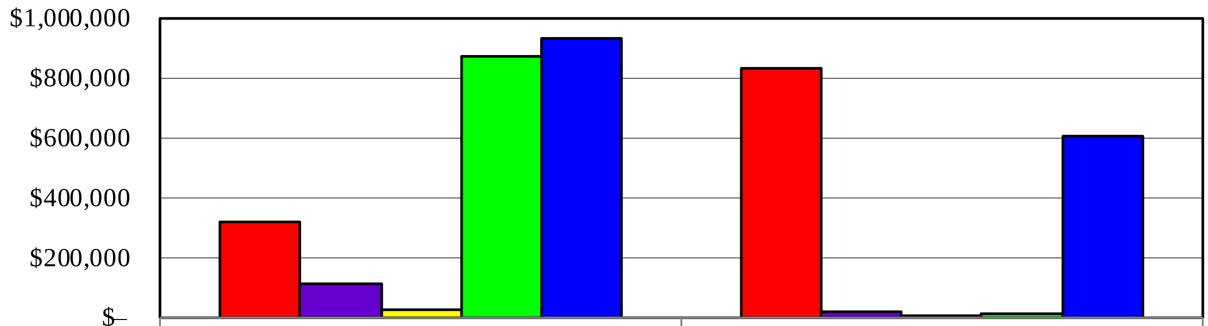
Total General Fund expenditures were $76,852,977 for the year ended June 30, 2023, which was $4,403,750 (6.1 percent) over the final budget. This was mainly for purchased services, which exceeded budget by $2,965,768, mainly in elementary and secondary regular instruction for substitute teacher costs and pupil support services for transportation. Salaries exceeded budgeted amounts by $652,114, spread across multiple program areas with the highest variance for special education services. Supplies and materials exceeded budgeted amounts by $558,298, mainly for sites and buildings related costs.

Total General Fund expenditures were $154,496 (0.2 percent) more than the prior year. Expenditure increases were mainly in benefits, which increased $935,292, the result of increased costs of health insurance, due to fiscal 2022 being lower from a one-time change in charges by the District's Medical Self-Insurance Internal Service Fund. Capital expenditures were lower than the prior year by $704,017, due to the timing of projects.

OTHER FUNDS OF THE DISTRICT

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

Other Operating Funds
Total Fund Balances



	Food Service	Community Service
2019	$319,851	$831,373
2020	$114,675	$15,320
2021	$23,771	$2,110
2022	$870,105	$12,801
2023	$930,838	$603,683

Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2023 with a fund balance increase of $60,733, compared to a budgeted increase of $4,967. Food service revenue was $2,365,761, which was over budget by $363,269, mainly in federal revenue. Expenditures were $2,305,475, and over budget by $307,950. The ending fund balance of $930,838 in this fund represents 40.4 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 $487,370, compared to an increase of $650,446 projected in the budget. Revenues were $8,055,783, which were over budget by $802,364, mainly in program fees. Expenditures were $7,568,413, which were over budget by $965,440, mainly in salaries. This fund also reported a prior period adjustment increasing fund balance by $103,512 to properly record custodial arrangements. The ending fund balance of $603,683 in this fund represents 8.0 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.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund ended the year with a fund balance increase of $128,743,781 as the District issued bonds in the current year. At June 30, 2023, the fund balance is $133,585,189 and is restricted for capital project needs.

Debt Service Fund

The District's Debt Service Fund ended fiscal 2023 with a fund balance increase of $436,564, compared to a budgeted increase of $419,029. Revenues were $12,804,098, which were more than budget by $13,098. Expenditures were $12,367,534, and under budget by $4,437. The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan.

Internal Service Funds

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis. The District currently maintains three internal service funds. These funds are used to account for the District's self-insured dental insurance, self-insured medical insurance, and OPEB Revocable Trust Fund functions.

Dental Self-Insurance – Operating revenues for fiscal 2023 totaled $542,416, while expenses totaled $580,417. The net position as of June 30, 2023 was $435,109, which represents 75.0 percent of annual operating expenses of this fund.

Medical Self-Insurance – Operating revenues for fiscal 2023 totaled $9,325,172, while expenses totaled $8,240,988. The net position as of June 30, 2023 was $2,862,343, which represents 34.7 percent of annual operating expenses of this fund.

Other Post-Employment Benefits (OPEB) Fund – Revenues for fiscal 2023 totaled $0, while expenses totaled $88,475. The net position (deficit) as of June 30, 2023 was ($3,145,914).

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	$ 149,863,203	$ 23,093,028	$ 126,770,175
Total capital assets, net of depreciation/amortization	175,701,118	167,646,047	8,055,071
Bonds, financed purchases, leases, and subscriptions, net of premiums	(262,550,926)	(130,247,155)	(132,303,771)
Pensions, net of deferred outflows and inflows	(56,146,257)	(65,642,829)	9,496,572
Other adjustments	(9,241,476)	(7,141,576)	(2,099,900)
Total net position – governmental activities	$ (2,374,338)	$ (12,292,485)	$ 9,918,147
Net position			
Net investment in capital assets	$ 46,735,381	$ 42,240,300	$ 4,495,081
Restricted	7,313,548	8,454,783	(1,141,235)
Unrestricted	(56,423,267)	(62,987,568)	6,564,301
Total net position	$ (2,374,338)	$ (12,292,485)	$ 9,918,147

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.

Unrestricted net position increased $6,564,301 in fiscal 2023. The change is the result of a decline in the General Fund balance offset by an increase in the internal service fund balance and a decrease in the District's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association state-wide pension liabilities and related deferments.

The District's net investment in capital assets increased $4,495,081. This change generally relates to the relationship between the rate capital assets are being added and depreciated/amortized, and the rate at which the District is repaying the debt issued to purchase or construct those assets. The increase in the current year was also impacted by capital additions financed with available resources and capital-related levies, which does not result in additional capital-related debt.

Restricted net position decreased $1,141,235, mainly in capital purchase and debt service related restrictions.

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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