

**BEMIDJI AREA SCHOOLS
BEMIDJI, MINNESOTA**

DATE: DECEMBER 15, 2025
TO: BOARD OF EDUCATION, BEMIDJI ISD #31
FROM: ASHLEY EASTRIDGE, CPA, DIRECTOR OF BUSINESS SERVICES
SUBJECT: ANNUAL AUDIT – FY 2024-2025

COMMENTS:

The annual audit for FY 2024-2025 is complete and was presented by the auditing firm of Brady Martz & Associates of Grand Forks, ND.

INTERNAL CONTROLS

There were two significant deficiency findings, one was repeated from the previous year. This finding will continue to be repeated unless there are no material journal entries proposed by the auditors. The new finding was in relation to applications for educational benefits. During the federal award compliance audit for Food Service, it was noted that out of the sample of 40 applications selected, 1 student was listed incorrectly in the district's software compared to the supporting data and 1 student where the support for the reduced status was unable to be located. The District has created corrective action plans for these and has added procedures to mitigate the risk of this occurring again. The financial statements are materially correct, receiving an unmodified opinion on both the financial statements and the compliance of federal awards. The complete findings and corrective action plans can be found starting on Page 71 of the financial statements.

BUDGETARY COMPARISON SCHEDULE GENERAL FUND

The budgetary comparison schedule for the General Fund shows the General Fund as a whole, including both restricted and unrestricted revenues and expenses.

The budgetary comparison schedule for the General Fund shows a \$6.5 million audited deficit compared to the \$1.6 million budgeted deficit. The budget variance is a \$4.9 million deficit. \$3.9 million of this budget variance is caused by the BHS Chiller project being budgeted for in the Building Construction Fund. Due to how the project was funded the actual expenses were split between the Building Construction Fund (bond funded) and the General Fund (funded by restricted operating capital reserves).

There were also 2 SPED buses that experienced delays in manufacturing which resulted in the buses being delivered in FY25 instead of FY24. These buses were funded with restricted medical assistance (MA) reserves.

In addition, the District experienced payroll costs (wages and benefits) being higher than projected. This was partially offset by State SPED and Gen Ed revenue being higher than projected.

GENERAL FUND OPERATING FUNDS

The operating funds schedule for the General Fund excludes any restricted revenues and expenses and only focuses on the unrestricted, assigned and committed revenues and expenses because that is what our fund balance policy is based upon.

The General Fund operating funds had a \$2.6 million operating deficit. The original FY25 budget projected a \$2.3 million operating deficit. The main reason for the difference was payroll being higher than projected in the budget but that was partially offset by State SPED, Gen Ed and Interest Earnings being more than projected.

The calculation of the District's Unassigned, Assigned and Committed fund balances total \$9,954,275 or 15.1% of related operating expenses compared to the 10% target set by School Board policy. This is down from 19.9% in FY24. The drop of 4.8% in fund balance was because the District is operating at a deficit and there no longer any COVID funds to support the deficit.

FUND BALANCES

There are two two illustrations following the action item. In the first illustration is showing the fund balance percentage per the School Board policy from the audited FY18 through audited FY25 amounts and the original FY26 budget projection. Our School Board policy is to maintain a minimum fund balance of 10% of related operating expenses.

In FY20 the District reached its lowest point of 3.9% fund balance. Starting in FY21 the District received COVID funds that were used to maintain operations without making reductions. The COVID funds were used from FY21 through FY24. During those years the fund balance increased even though the District had a structural deficit. This was a strategic decision so that budget reductions could be made over multiple years to achieve a balanced budget. Had the District not made the budget reductions over multiple years, then the District would have had to eliminate the deficit in one year which would have created significantly more disruptions to families and staff.

The second illustration represents what the fund balance would have been had the District kept everything the same except removing the COVID funds. In FY22 the District would have been in statutory operating debt. Statutory operating debt is a -2.5% fund balance. The point of this illustration is to understand the magnitude of how the COVID funds masked the structural deficit that the District was experiencing but also how it built a runway for the District to be able to balance the budget over multiple years instead of being all in one year. If we don't eliminate the deficit and achieve a balanced budget then our future would look similar to this.

ACTION:

The motion was offered by _____, seconded by _____
and the vote was _____ to approve the FY 2024-2025 annual audit as presented.