MEMO

To: School Board Members

From: Cathy Erickson, CFO

Date: December 17, 2019

Re: FY19 Audit Review

Greetings Board Members,

At last week's business committee, our auditors, Wipflii, presented the audit summary. As you may have noticed, the district had a fund balance increase, and this is great news! But I wanted to follow up on a few items to give a better perspective of what impacted these totals and what they mean moving forward.

On page 4 of the summary handout (which is attached), first noted is that the district received approximately $1.1 million more in general fund revenues than budgeted. Two main factors that account for this variance are: 1. a one-time prior year back payment of over $500,000 in state special education revenue - this was the result of the legislature opting to fund the proration gap from FY18. This was unplanned so there would have been no way for the district to budget for this. The other revenue increase is higher final pupil counts than the estimates used in the FY19 budget. The increase in pupil units equated to about $350,000 in revenues spread over several funding categories. In a general fund budget of over $100 million, this variance very reasonable. There are many other line items that saw variances, both higher and lower, and we will be focusing on reviewing and editing the FY20 budget based on impacts and trends we saw from this audit report.

Also on page 4 you will see that actual expenses were less than budgeted. Two important notes, the first would be that our Capital budget (for building repairs and deferred maintenance) runs through the LTFM reserve - so if we budget a project and for whatever reason do not complete that, it's sitting in our reserve and not a windfall to the district. Of the approximate $1.5 million of "unspent budget", over $700,000 was related to estimated projects that did not get completed or may be deferred to FY20 (this is very common for districts - we are required to submit plans to the state in order to get revenue authority, but often times project timing gets off or other projects/needs replace what was initially planned). In addition, in the curriculum department, part of the annual textbook cycle budget was unspent in order to utilize those funds in FY20 and FY21. Those unspent funds are in the textbook reserve and will have a planned spend down in the future. There were several areas of our expense side budget where costs exceeded our budgets and as part of our review for FY20 we will dig more into those to make sure our FY20 budget accounts for any needed adjustments. So it's important to note that the majority of those expense budgets not spent will be spent this year.

A last note on page 4 -you will see under other financing sources, a surplus of about $385,000. The 2 factors there would be the sale of the first parcel of Hartley property selling for slightly higher than budgeted, and the refunding/restructuring of debt this past spring. Of note, the timing of the refunding and impacts fall within both FY19 and FY20, so that surplus will be "spent" when the new bond schedule payments start in FY20. Also, part of the proceeds of the sale of the Hartley property will be used for the required local match for the COPS grant that is providing increased security measures in our school buildings, and this cost is in FY20.

On page 5 of the audit summary, you will see the ending FY19 fund balances. The district is required to carry several reserve balances, and then may also opt to create assigned fund balances to locally track funds that may have specific purposes or intent. In past years these amounts would have been a part of the unreserved fund balance and tracked internally in the finance department.

The LTFM reserve fund balance is more of a holding account due to the timing of revenue compared to when project costs are reported. Because so much of our LTFM is levy, we are predicting a year in advance what we think we might need, and then MDE will also include adjustments from prior years when they compare requested revenue to actual costs, so when there is a reserve we can expect either more expenses coming or a levy adjustment to recapture those unspent funds.

Also new is the reserve for medical assistance, which is a component of special education funding. Because this revenue runs in tandem to special education state funding, the district opted to reserve part of this revenue in order to maximize state special education revenue, and in order to do that we needed to show more expenses in our state special education cost category and less in medical assistance. It is important to note that we have already spent this reserve in FY20 due to the high special education needs we are seeing throughout the district.

The reduction of the area learning center (ALC) fund balance was planned...they used reserves to purchase chrome carts for School Within A School programs (under ALC) in both high schools.

I hope this gives a little better perspective on the results of FY19 and we look forward to further discussions on this as we begin to review FY20 and start planning for the FY21 budget process.

Finally, I want to share my deep gratitude and appreciation for Peggy Blalock, our finance director, and her team for all of the work that was done to complete the FY19 audit process.