

Management Report
for
Independent School District No. 200
Hastings, Minnesota
June 30, 2025



Certified Public Accountants Business Consultants

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To the School Board and Management of
Independent School District No. 200
Hastings, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 200, Hastings, Minnesota's (the District) financial statements for the year ended June 30, 2025. We have organized this report into the following sections:

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

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

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

Respectfully submitted,

A handwritten signature in black ink that reads 'LB Carlson, LLP'.

LB CARLSON, LLP
Minneapolis, Minnesota

November 4, 2025

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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 AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate 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, 2025, which is required to be performed in accordance with Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). It was originally planned that the Single Audit would be completed and issued along with the District's financial statement audit by December 31, 2025. However, issuance of the 2025 *Compliance Supplement* by the Office of Management and Budget has been delayed, and the final version is not yet issued. The 2025 *Compliance Supplement* guidance is effective for Single Audits of federal awards expenditures for the year ended June 30, 2025. Consequently, Single Audits for this period cannot be finalized until the final version of this guidance is issued. The Minnesota Department of Education (MDE) has extended the due date for Single Audits to coincide with the federal deadline of March 31, 2026. The District plans to issue its audited Schedule of Federal Awards Expenditures and related reports separately by this deadline.

AUDIT OPINIONS AND FINDINGS

Based on our audit of the District's basic financial statements for the year ended June 30, 2025:

- We have issued unmodified opinions on the District's basic financial statements. Our report included a paragraph emphasizing the District's implementation of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, this year. Our opinion was not modified with respect to this matter.
- We reported no deficiencies in the District's internal control over financial reporting that we 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 no findings based on our testing of the District's compliance with Minnesota laws and regulations.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2025. However, the District implemented the following governmental accounting standard during the year:

- As described in Note 1 of the notes to basic financial statements, the District implemented GASB Statement No. 101, *Compensated Absences*, during fiscal year ended June 30, 2025. This standard changed the recognition and measurement of the compensated absence liability reported by the District. This change resulted in a restatement, which decreased beginning net position in the government-wide Statement of Activities by \$10,605,117.

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

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

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

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

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services, which are computed using formulas derived by the MDE. Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the District has closed its financial records. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Position for compensated absences. Management's estimate is based on current rates of pay, unused compensated absence balances, and the likelihood compensated absences will be paid out over the course of employment or at termination.

The District has recorded activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies, primarily described in GASB Statement Nos. 68, 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/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 November 4, 2025.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

OTHER AUDIT FINDINGS OR ISSUES

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

OTHER MATTERS

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

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

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

FUNDING PUBLIC EDUCATION IN MINNESOTA

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

BASIC GENERAL EDUCATION REVENUE

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

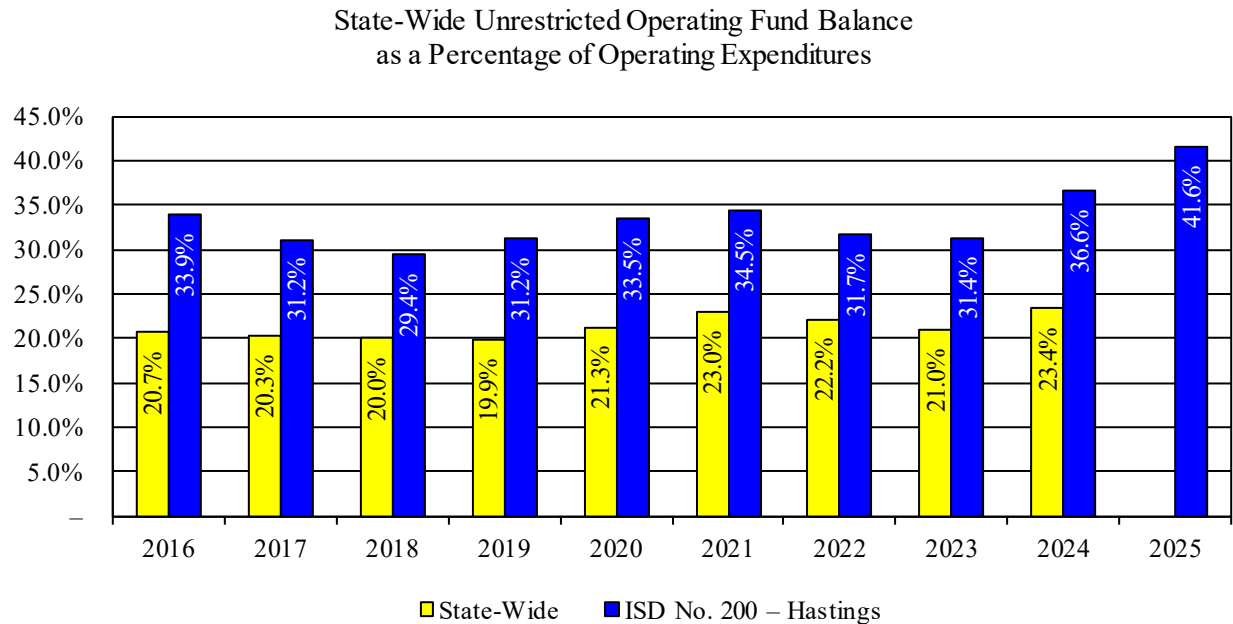
The table below presents a summary of the formula allowance for the past decade and as approved for the next fiscal year. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the “roll-in” of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual districts.

For fiscal 2026 and beyond, the annual formula increase will be adjusted for inflation, using a formula based on the Consumer Price Index-Urban (CPI-U) average inflation rate for the fourth calendar quarter of the immediately prior fiscal year compared to the average for the fourth calendar quarter of the second prior fiscal year, with a floor of 2.00 percent and a cap of 3.00 percent. This resulted in a per pupil increase to the basic formula allowance of \$200 for fiscal 2026.

Fiscal Year Ended June 30,	Formula Allowance	
	Amount	Percent Increase
2016	\$ 5,948	2.00 %
2017	\$ 6,067	2.00 %
2018	\$ 6,188	2.00 %
2019	\$ 6,312	2.00 %
2020	\$ 6,438	2.00 %
2021	\$ 6,567	2.00 %
2022	\$ 6,728	2.45 %
2023	\$ 6,863	2.00 %
2024	\$ 7,138	4.00 %
2025	\$ 7,281	2.00 %
2026	\$ 7,481	2.75 %

STATE-WIDE SCHOOL DISTRICT FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the unrestricted operating fund balance as a percentage of operating expenditures.



Note: State-wide information is not available for fiscal 2025.

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

The state-wide average unrestricted fund balance as a percentage of operating expenditures for Minnesota school districts has risen in recent years, fluctuating between 21.0 percent and 23.4 percent over the last five fiscal years for which data is available.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 41.6 percent at the end of the current year, as compared to 36.6 percent at June 30, 2024.

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

GOVERNMENTAL FUNDS REVENUE

The table below shows a comparison of governmental funds revenue per ADM received by Minnesota school districts and your district. Revenues for all governmental funds are included, except for the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds. 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. 200 – Hastings			
	2023	2024	2023	2024	2023	2024	2025	
General Fund								
Property taxes	\$ 2,760	\$ 2,966	\$ 3,704	\$ 3,976	\$ 3,112	\$ 3,522	\$ 4,052	
Other local sources	742	895	595	744	734	903	965	
State	10,771	12,149	10,792	12,186	10,095	11,428	12,507	
Federal	1,344	1,124	1,441	1,257	1,169	789	429	
Total General Fund	15,617	17,134	16,532	18,163	15,110	16,642	17,953	
Special revenue funds								
Food Service	676	847	649	822	638	795	803	
Community Service	795	835	919	964	594	693	705	
Debt Service Fund	1,579	1,669	1,595	1,625	1,331	1,319	1,377	
Total revenue	<u>\$ 18,667</u>	<u>\$ 20,485</u>	<u>\$ 19,695</u>	<u>\$ 21,574</u>	<u>\$ 17,673</u>	<u>\$ 19,449</u>	<u>\$ 20,838</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>4,092</u>	<u>4,056</u>	<u>4,006</u>	
Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.								
Source of state-wide and metro area data: School District Profiles Report published by the MDE								

ADM used in the table above 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.

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.

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 District earned \$83,475,678 in the governmental funds reflected above in fiscal 2025, an increase of \$4,588,746 (5.8 percent) from the prior year. Total revenue per ADM served increased by \$1,389 (7.1 percent) per student. The increase was spread across most sources presented in the above table. Property taxes were up as approved through the annual tax levy process. State sources were up with growth in the basic formula allowance and with special education funding improvements. Federal revenues in the General Fund were down with the final spending and the end of several COVID-19 pandemic-related entitlements. Food service revenues per capita remained similar to the prior year. Increased state revenues contributed to the additional funding in the Community Service Special Revenue Fund. Debt Service Fund revenue per capita increased in the current year, due to an increase in property taxes to support debt service, as well as higher investment earnings compared to the prior year.

GOVERNMENTAL FUNDS EXPENDITURES

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

Governmental Funds Expenditures per Student (ADM) Served							
	State-Wide		Metro Area		ISD No. 200 – Hastings		
	2023	2024	2023	2024	2023	2024	2025
General Fund							
Administration and district support	\$ 1,300	\$ 1,372	\$ 1,320	\$ 1,410	\$ 1,127	\$ 1,136	\$ 1,321
Elementary and secondary regular instruction	6,646	7,034	7,019	7,466	6,404	6,658	7,059
Vocational education instruction	224	243	198	215	218	220	231
Special education instruction	2,892	3,158	3,059	3,346	2,612	2,899	3,099
Community service	—	—	—	—	—	—	8
Instructional support services	861	874	1,030	1,032	678	707	858
Pupil support services	1,553	1,707	1,712	1,916	2,111	2,060	2,184
Sites and buildings and other	1,201	1,192	1,171	1,160	1,318	1,321	1,432
Total General Fund – noncapital	14,677	15,580	15,509	16,545	14,468	15,001	16,192
General Fund capital expenditures	960	996	959	1,052	337	865	820
Total General Fund	15,637	16,576	16,468	17,597	14,805	15,866	17,012
Special revenue funds							
Food Service	706	801	693	780	661	814	871
Community Service	763	818	865	929	606	707	735
Debt Service Fund	1,626	1,737	1,652	1,596	946	955	5,147
Total expenditures	<u>\$ 18,732</u>	<u>\$ 19,932</u>	<u>\$ 19,678</u>	<u>\$ 20,902</u>	<u>\$ 17,018</u>	<u>\$ 18,342</u>	<u>\$ 23,765</u>
ADM served per MDE School District Profiles Report (current year estimated)					<u>4,092</u>	<u>4,056</u>	<u>4,006</u>
Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.							
Source of state-wide and metro area data: School District Profiles Report published by the MDE							

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 \$95,203,904 in the governmental funds, reflected above in fiscal 2025, an increase of \$20,815,884 (28.0 percent) over the prior year. On a per student basis, this represents an increase of \$5,423. General Fund expenditures increased by \$1,146 per student. Spending was up in nearly every category presented in the above table, with the largest increases in elementary and secondary regular education (\$401 per student) and special education (\$200 per student). Debt service increased as anticipated in approved debt financing plans. The significant increase in the Debt Service Fund was due to the balloon payment in the current year on qualified school construction bonds as anticipated in the budget and by the design of the bond issue.

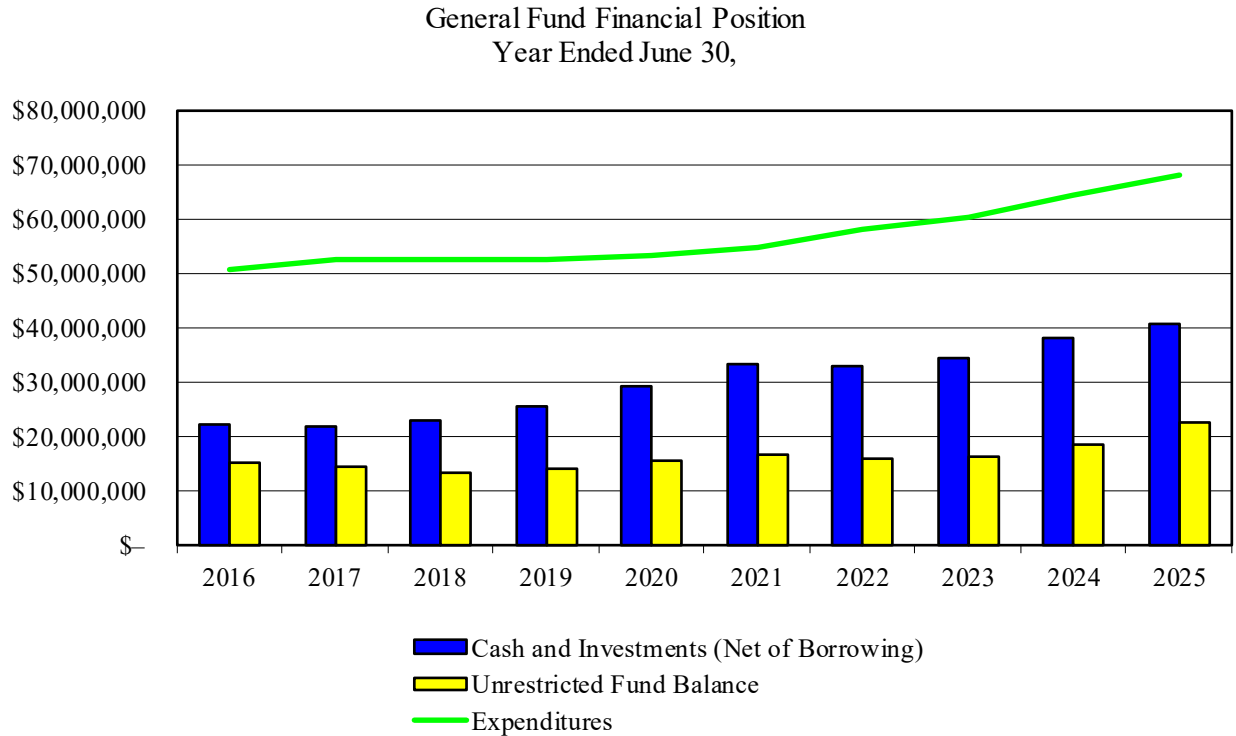
SUMMARY

District school boards and administrators continue to face significant financial challenges as they strive to provide a safe and effective learning environment for their students. Factors such as the sunset of large pandemic-related federal funding programs, state legislative funding changes and mandates, increasing demand for special education services, shifting student populations, tight labor markets, heightened safety concerns, increasing transportation costs, and other inflationary pressures continue to make it difficult to allocate limited resources amongst many competing demands.

FINANCIAL TRENDS OF YOUR DISTRICT

GENERAL FUND FINANCIAL POSITION

The following graph displays the District's General Fund trends of financial position and changes in the volume of financial activity. Unrestricted fund balance and cash balance are two indicators of financial health, while annual expenditures are often used to measure the size of the operation.



The District ended fiscal year 2025 with a General Fund cash and investments balance of \$40,827,192 (net of borrowing and interfund receivables and payables), an increase of \$2,504,673 from the previous year. Unrestricted fund balance (consisting of any committed, assigned, and unassigned fund balances) at year-end totaled \$22,552,142, an increase of \$4,010,953. Total fund balance of the General Fund increased by \$3,777,291, compared to a decrease of \$320,086 approved in the final budget.

GENERAL FUND COMPONENTS OF FUND BALANCE

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

	June 30,				
	2021	2022	2023	2024	2025
Nonspendable fund balances	\$ 292,173	\$ 397,393	\$ 206,575	\$ 1,228,417	\$ 716,905
Restricted fund balances (1)	10,687,757	11,083,194	12,711,434	12,752,977	13,024,827
Unrestricted fund balances					
Committed	1,265,718	1,081,414	1,015,688	997,510	757,083
Assigned	646,102	1,004,882	46,643	1,636,865	3,235,319
Unassigned	14,712,397	13,758,301	15,249,045	15,906,814	18,559,740
Total fund balances	<u>\$ 27,604,147</u>	<u>\$ 27,325,184</u>	<u>\$ 29,229,385</u>	<u>\$ 32,522,583</u>	<u>\$ 36,293,874</u>
Unrestricted fund balances as a percentage of total expenditures	<u>30.4%</u>	<u>27.2%</u>	<u>26.9%</u>	<u>28.8%</u>	<u>33.1%</u>
Unassigned fund balances as a percentage of total expenditures	<u>26.9%</u>	<u>23.6%</u>	<u>25.2%</u>	<u>24.7%</u>	<u>27.2%</u>
(1) Includes deficits in restricted fund balance accounts allowed to accumulate deficits under UFARS, which are part of unassigned fund balance on the accounting principles generally accepted in the United States of America-based financial statements.					

The table above reflects the total General Fund unrestricted fund balance and percentages, which differ 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

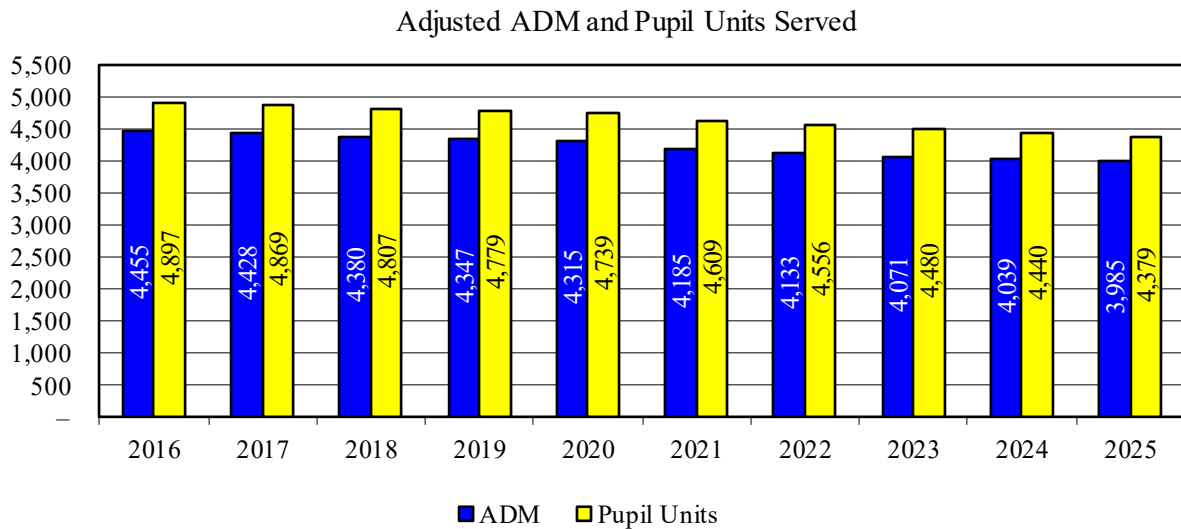
The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes that the District will strive to maintain a minimum unassigned General Fund balance of two months of operating expenditures.

On June 30, 2025, unassigned fund balance of the General Fund was 27.2 percent of the fiscal 2025 General Fund expenditures, or approximately 14 weeks of operations assuming level spending throughout the year.

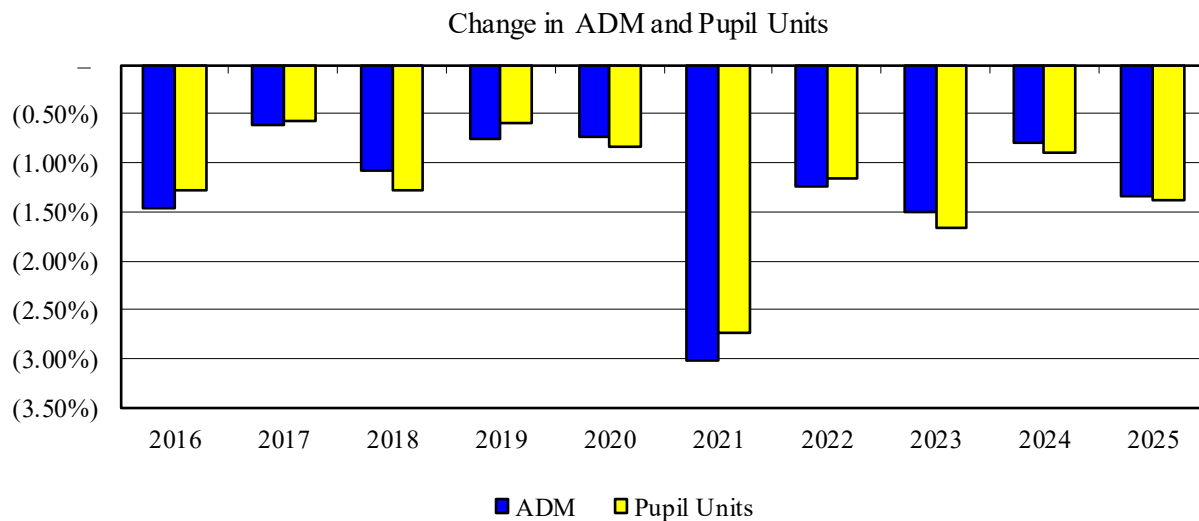
On June 30, 2025, unrestricted fund balances in the General Fund represented 33.1 percent of annual expenditures, or about 17 weeks of operations assuming level spending throughout the year.

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:

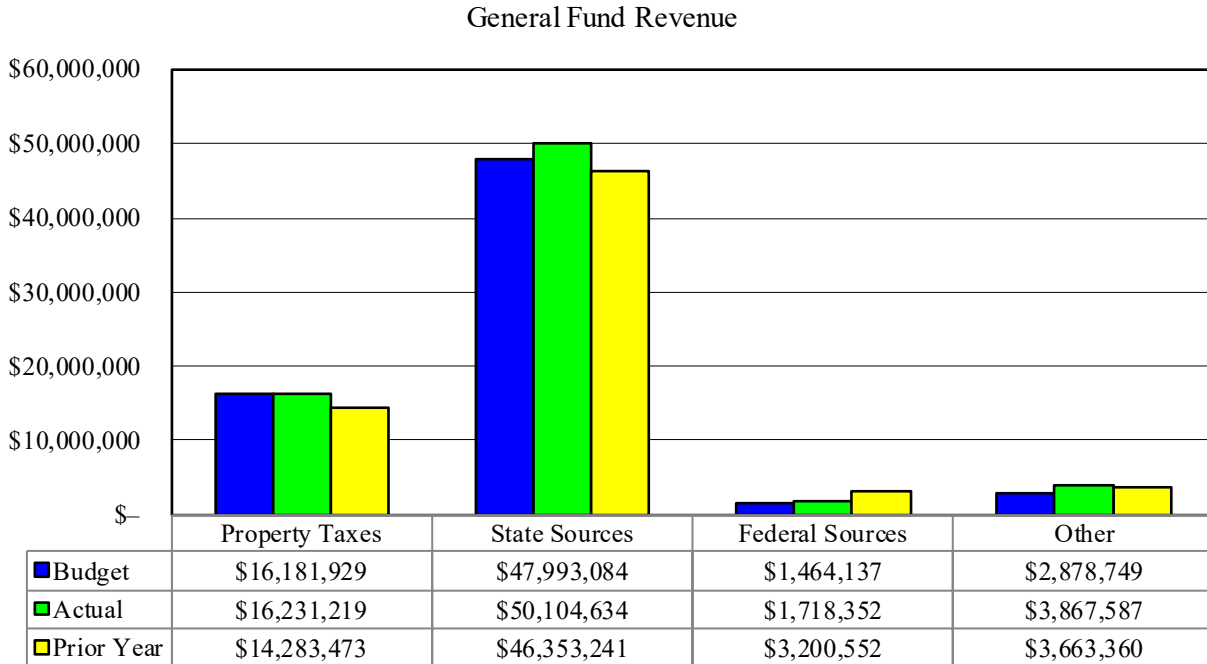


ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts 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 ADM of 3,985 in 2025, a decrease of 54 ADM, or 1.3 percent, from the prior year. The number of pupil units served by the District for fiscal 2025 was 4,379, a decrease of 61 (1.4 percent) from the prior year.

GENERAL FUND REVENUES

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



Total General Fund revenues were \$71,921,792 for the year ended June 30, 2025, which was \$3,403,893 (5.0 percent) over the final budget and \$4,421,166 (6.5 percent) more than the prior year.

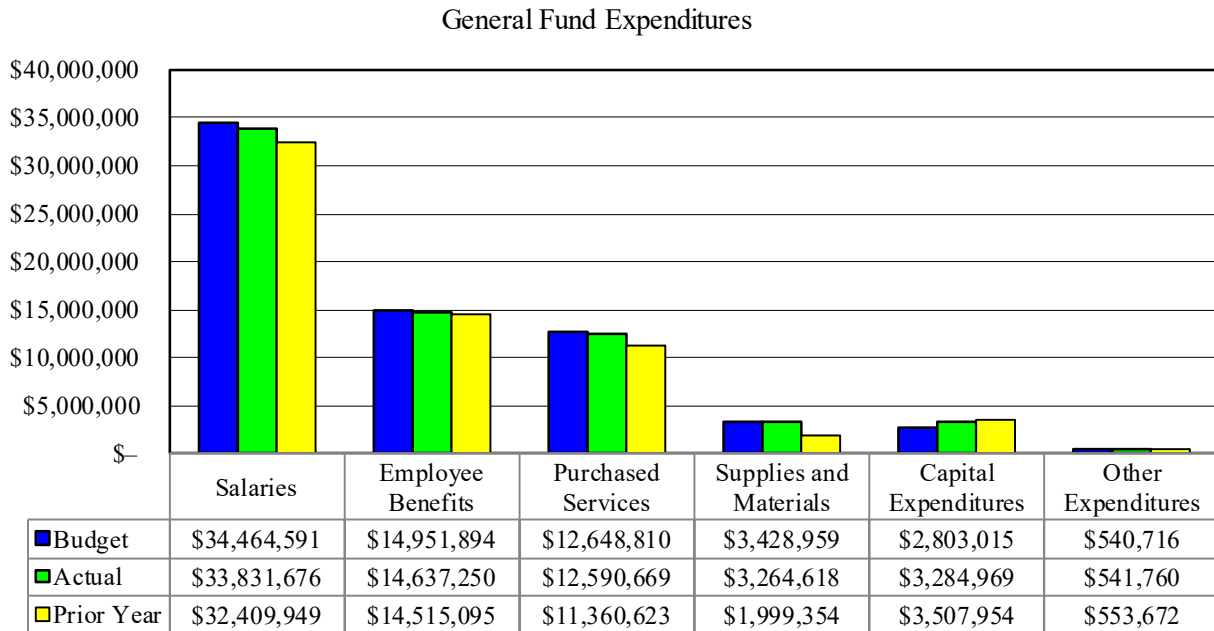
Revenues were better than anticipated in the budget for all major revenue sources as presented in the above graph. Favorable variances were largely due to conservative budgeting. More special education funding in state sources and improved investment earnings for other sources were significant contributors to the favorable variance in revenues.

The District reported revenue increases over the prior year in property taxes, state, and other local sources. An increase in the approved levy for technology contributed to the growth in property taxes in the current year. State sources were up with funding improvements in general education and special education funding formulas. The increase in other revenues was directly related to increases in fees, donations, and Medical Assistance billings. Federal revenues were down as anticipated in the budget with the final spending and the end of several COVID-19 pandemic-related entitlements.

The graph above reflects the concentration of state sources (69.7 percent) followed by property taxes (22.6 percent) that provide most of the revenue available to finance General Fund operations.

GENERAL FUND EXPENDITURES

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



Total General Fund expenditures were \$68,150,942 for the year ended June 30, 2025, which was \$687,043 (1.0 percent) under the final budget and \$3,804,295 (5.9 percent) higher than the prior year.

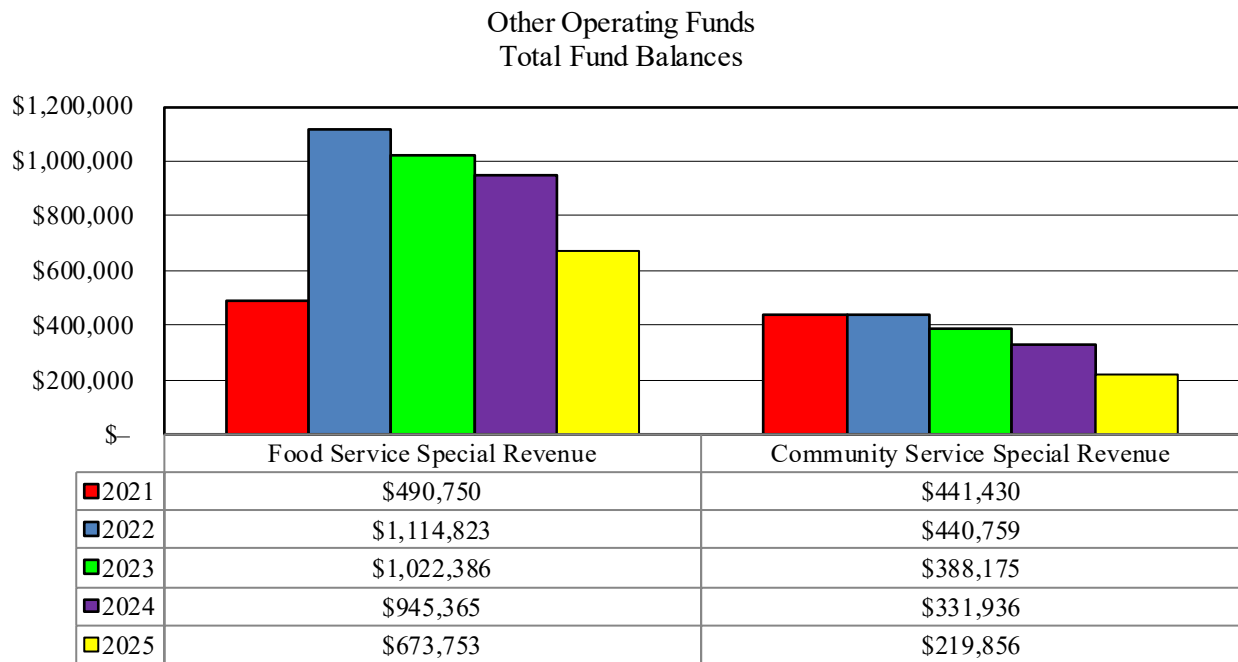
As presented in the graph above, expenditures were less than projected in most categories and spread across district programs.

Salaries and employee benefits, which account for 71.1 percent of General Fund spending, were \$1,543,882 (3.3 percent) over the prior year and \$947,559 (1.9 percent) under budget. Conservative budgeting, attrition, and open positions contributed to salaries and benefits ending the year less than projected. Spending on personnel services increased with approved contractual increases.

Capital expenditures decreased as anticipated with the timing of projects and the District nearing completion of projects financed with bond proceeds. Spending on capital was more than projected in the budget with a solar energy project that was approved and financed with grant resources.

OTHER FUNDS OF THE DISTRICT

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



Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2025 with a fund balance decrease of \$271,612, compared to a budgeted reduction of \$445,230. Actual revenues were higher than projected amounts by \$131,333, while actual expenditures were less than budget by \$42,285. The Food Service Special Revenue Fund had a year-end fund balance of \$673,753, representing 19.3 percent of annual expenditures totaling \$3,487,942.

This operation has maintained a healthy fund balance for several years and has also been able to assist in funding a portion of several capital improvements to food service facilities in recent years. The District should continue reviewing upcoming capital needs of the operation and incorporate that information in establishing an optimal level of fund balance that is also within state and federal fund balance limits.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended fiscal 2025 with a fund balance decrease of \$112,080, compared to a budgeted spend down of \$33,382. Actual revenues were less than projected amounts by \$8,428, while actual expenditures were over budget by \$80,360. The largest expenditure variances were for salaries and purchased services. The Community Service Special Revenue Fund had a year-end fund balance of \$219,856, representing 7.5 percent of annual expenditures totaling \$2,944,570.

The Community Service Special Revenue Fund, like the Food Service Special Revenue Fund, needs to be self-sustaining. In addition to cost controls, financial analysis of the costs of providing programs, including overhead, is important. Fees and tuition charges should be sufficient to cover these costs, as well as potential funding shortfalls from state, federal, or property tax sources.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund ended the year with a fund balance decrease of \$2,100,838, compared to a decrease of \$2,499,440 anticipated in the budget. Capital outlay expenditures were less than budget, due to timing delays of projects. At year-end, \$548,602 of fund balance remains restricted for capital projects.

Debt Service Fund

Total fund balance in the Debt Service Fund decreased by \$15,105,294 in the current year, which was \$502,453 less than the reduction anticipated in the budget. The Debt Service Fund balance decrease is due to final payment made for the 2009A Taxable School Building Bonds which required a final balloon payment by design of the debt issuance. The Debt Service Fund has a year-end fund balance of \$1,475,015 available for future principal and interest debt service payments.

Proprietary Funds – Internal Service Funds

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

	June 30,		
	2023	2024	2025
Operating revenue			
Charges for services	\$ 8,926,942	\$ 9,775,243	\$ 10,462,308
Operating expenses			
Health benefit claims	8,632,845	9,500,895	9,302,961
Dental benefit claims	599,832	649,927	683,298
Total operating expenses	<u>9,232,677</u>	<u>10,150,822</u>	<u>9,986,259</u>
Operating income (loss)	(305,735)	(375,579)	476,049
Nonoperating revenue			
Investment earnings	<u>200,838</u>	<u>310,502</u>	<u>266,599</u>
Change in net position	(104,897)	(65,077)	742,648
Net position			
Beginning of year	<u>5,708,870</u>	<u>5,603,973</u>	<u>5,538,896</u>
End of year	<u>\$ 5,603,973</u>	<u>\$ 5,538,896</u>	<u>\$ 6,281,544</u>

Post-Employment Benefits Trust Fund

The District has established a Post-Employment Benefits Trust Fund to account for an irrevocable trust account established to finance the District's liability for post-employment healthcare benefits. At year-end, trust net position of \$6,956,609 is available for future OPEB payments. The most recent actuarial study for OPEB obligations was completed with a measurement date as of June 30, 2025. As of that date, the District had an estimated total OPEB liability of \$6,719,178.

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,		
	2025	2024	Change
Net position – governmental activities			
Total fund balances – governmental funds	\$ 39,211,100	\$ 53,029,633	\$ (13,818,533)
Total capital assets, net of depreciation/amortization	90,214,686	90,361,067	(146,381)
Bonds payable (including premium/discount)	(54,745,761)	(73,122,138)	18,376,377
Pension adjustments	(30,963,723)	(32,728,485)	1,764,762
OPEB adjustments	(1,317,014)	(2,089,612)	772,598
Other adjustments	(4,380,645)	4,749,819	(9,130,464)
Total net position – governmental activities	<u>\$ 38,018,643</u>	<u>\$ 40,200,284</u>	<u>\$ (2,181,641)</u>
Net position			
Net investment in capital assets	\$ 35,952,459	\$ 19,805,036	\$ 16,147,423
Restricted	15,783,918	30,492,504	(14,708,586)
Unrestricted	<u>(13,717,734)</u>	<u>(10,097,256)</u>	<u>(3,620,478)</u>
Total net position	<u>\$ 38,018,643</u>	<u>\$ 40,200,284</u>	<u>\$ (2,181,641)</u>

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

Total net position decreased by \$2,181,641 during fiscal 2025. The District's net investment in capital assets increased by \$16,147,423. 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 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, with the largest decrease in amounts restricted for debt service as discussed earlier for the final balloon payment on the 2009A Taxable School Building Bonds. Unrestricted net position was down compared to the prior year, due to the required implementation of a new accounting standard for compensated absences that required an adjustment reducing beginning net position by \$10,605,117. Positive operations in the General Fund and combined internal services funds partially offset the change in reporting for compensated absences.

ACCOUNTING AND AUDITING UPDATES

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

GASB STATEMENT NO. 103, *FINANCIAL REPORTING MODEL IMPROVEMENTS*

The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues.

This statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). This statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. In addition, this statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

This statement defines unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence, and requires governments to display the inflows and outflows related to each unusual or infrequent item separately.

This statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

This statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 104, *DISCLOSURE OF CERTAIN CAPITAL ASSETS*

The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets.

This statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this statement requires intangible assets other than those three types to be disclosed separately by major class.

This statement also requires additional disclosures for capital assets held for sale. A capital asset is considered held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. Capital assets held for sale are required to be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.