

Management Report

for

Independent School District No. 831
Forest Lake, Minnesota

June 30, 2022

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PRINCIPALS

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To the School Board and Management of
Independent School District No. 831
Forest Lake, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 831's (the District) financial statements for the year ended June 30, 2022. 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 with responsibility for oversight of the District's financial reporting process comments resulting from our audit and information relevant to school district financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
December 21, 2022

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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, 2022. 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, 2022, 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, 2022. 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, 2023. The District plans to issue its audited Schedule of Federal Awards Expenditures and related reports separately by this deadline.

AUDIT OPINION AND FINDINGS

Based on our audit of the District's basic financial statements for the year ended June 30, 2022:

- We have issued an unmodified opinion 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. 87, *Leases*, 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 your 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, 2022. 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. 87, *Leases*, during fiscal year ended June 30, 2022. As described in Note 1 of the basic financial statements, this standard changed the way lease transactions are reported by the District, but did not result in a restatement of 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 severance benefits payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies, primarily described in GASB Statement Nos. 68, 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 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. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated December 21, 2022.

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 supplemental information and the Uniform Financial Accounting and Reporting Standards Compliance Table, accompanying the financial statements, which are not RSI. With respect to this supplemental 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 supplemental information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. This section provides selected state-wide funding and financial trend information.

BASIC GENERAL EDUCATION REVENUE

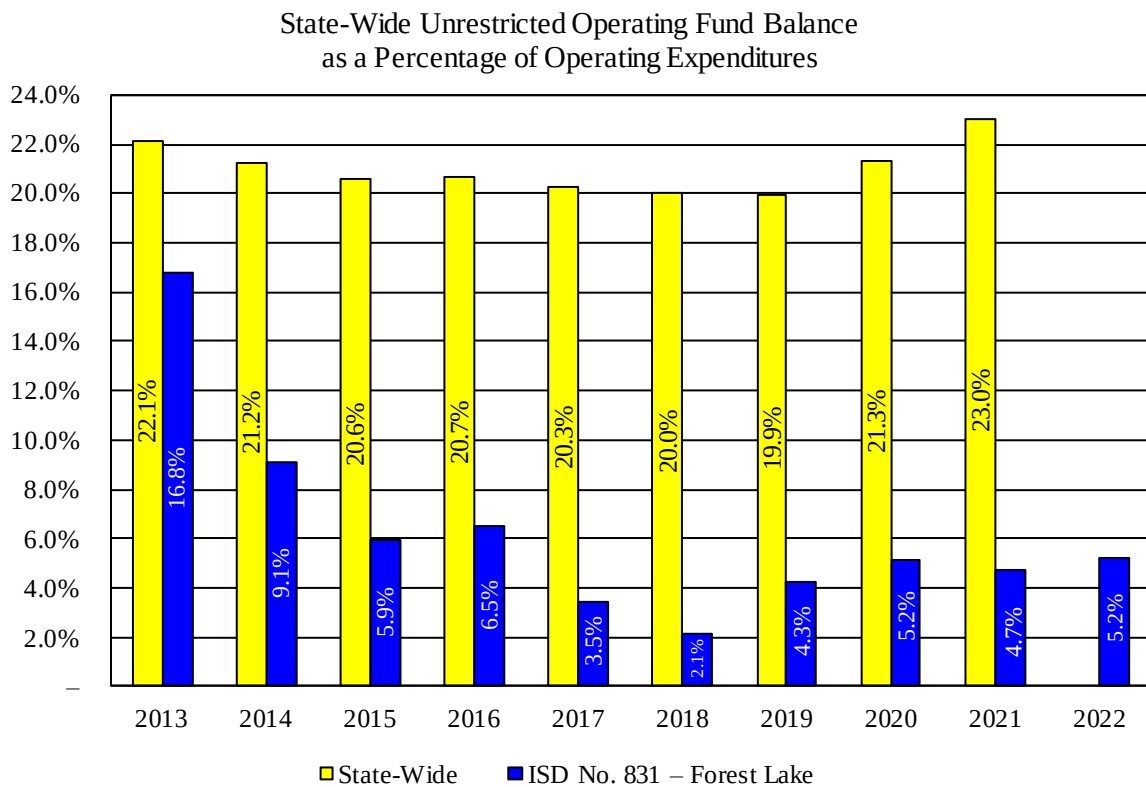
The largest single funding source for Minnesota school districts is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled 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 Legislature approved a per pupil increase of \$135 for fiscal 2023. 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.

Fiscal Year Ended June 30,	Formula Allowance	
	Amount	Percent Increase
2013	\$ 5,224	1.00 %
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 %

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 2022.

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 22.1 percent at the end of fiscal 2013 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.

As of June 30, 2021, this ratio was 4.7 percent for the District, as compared to a state-wide average of 23.0 percent. The District's unrestricted operating fund balance as a percentage of operating expenditures was 5.2 percent at the end of the current year.

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

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

Governmental Funds Revenue per Student (ADM) Served								
	State-Wide		Metro Area		ISD No. 831 – Forest Lake			
	2020	2021	2020	2021	2020	2021	2022	
General Fund								
Property taxes	\$ 2,345	\$ 2,576	\$ 3,100	\$ 3,411	\$ 2,836	\$ 2,937	\$ 3,055	
Other local sources	538	438	417	323	429	373	549	
State	10,144	10,514	10,127	10,517	9,575	9,752	9,945	
Federal	480	992	499	956	355	703	876	
Total General Fund	13,507	14,520	14,143	15,207	13,195	13,765	14,425	
Special revenue funds								
Food Service	554	576	539	568	543	486	942	
Community Service	632	612	732	684	725	777	879	
Debt Service Fund	1,322	1,512	1,385	1,549	1,457	1,591	1,658	
Total revenue	<u>\$ 16,015</u>	<u>\$ 17,220</u>	<u>\$ 16,799</u>	<u>\$ 18,008</u>	<u>\$ 15,920</u>	<u>\$ 16,619</u>	<u>\$ 17,904</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>5,974</u>	<u>5,898</u>	<u>5,953</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 and on the next page are 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 \$106,586,971 in the governmental funds reflected above in fiscal 2022, an increase of \$8,566,291 (8.7 percent) from the prior year. Total revenue per ADM served increased by \$1,285 (7.7 percent) per student. Federal sources in the General Fund increased with more pandemic-related funding recognized in the current year. The increase in the basic formula allowance, as discussed earlier, and increase in students served, along with increased special education funding contributed to the change in state sources. Revenues in other local sources in the General Fund increased with the return to an in-person learning model and easing restrictions associated with the COVID-19 pandemic. Food Service Special Revenue Fund and Community Service Special Revenue Fund revenues also increased with the return to an in-person learning model.

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. 831 – Forest Lake		
	2020	2021	2020	2021	2020	2021	2022
General Fund							
Administration and district support	\$ 1,093	\$ 1,184	\$ 1,100	\$ 1,205	\$ 1,051	\$ 1,105	\$ 1,122
Elementary and secondary regular instruction	5,881	6,198	6,231	6,527	4,552	4,939	5,051
Vocational education instruction	186	197	171	179	260	274	235
Special education instruction	2,481	2,626	2,626	2,792	2,278	2,284	2,538
Instructional support services	683	812	787	917	1,250	1,183	1,140
Pupil support services	1,203	1,228	1,316	1,285	1,790	1,829	1,682
Sites, buildings, and other	952	1,083	910	1,052	1,224	1,394	1,887
Total General Fund – noncapital	12,479	13,328	13,141	13,957	12,405	13,008	13,655
General Fund capital expenditures	748	793	717	815	788	705	1,321
Total General Fund	13,227	14,121	13,858	14,772	13,193	13,713	14,976
Special revenue funds							
Food Service	556	532	548	522	589	523	753
Community Service	661	610	774	682	797	733	821
Debt Service Fund	1,360	1,576	1,379	1,609	1,491	1,562	1,597
Total expenditures	<u>\$ 15,804</u>	<u>\$ 16,839</u>	<u>\$ 16,559</u>	<u>\$ 17,585</u>	<u>\$ 16,070</u>	<u>\$ 16,531</u>	<u>\$ 18,147</u>
ADM served per MDE School District Profiles Report (current year estimated)					<u>5,974</u>	<u>5,898</u>	<u>5,953</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 differences from program to program reflect the District's particular character, such as its community service programs, as well as the fluctuations from year-to-year for such things as capital expenditures.

The District spent \$108,030,666 in the governmental funds reflected above in fiscal 2022, an increase of \$10,531,010 (10.8 percent) from the prior year. On a per student basis, this represents an increase of \$1,616 (9.8 percent). The increase was spread across most categories, as noted in the table above, with the largest changes in sites, buildings, and other and special education instruction. Sites, buildings, and other increased in debt service with the implementation of the lease standard and increase in utility costs. The increase in special education instruction is due to additional staffing in the current year. General Fund capital expenditures increased, due to a lease recognized in the current year under the new lease standard reporting and increased long-term facilities maintenance projects. Consistent with the revenue increase discussed on the previous page, spending was up with more participation in food service and community service.

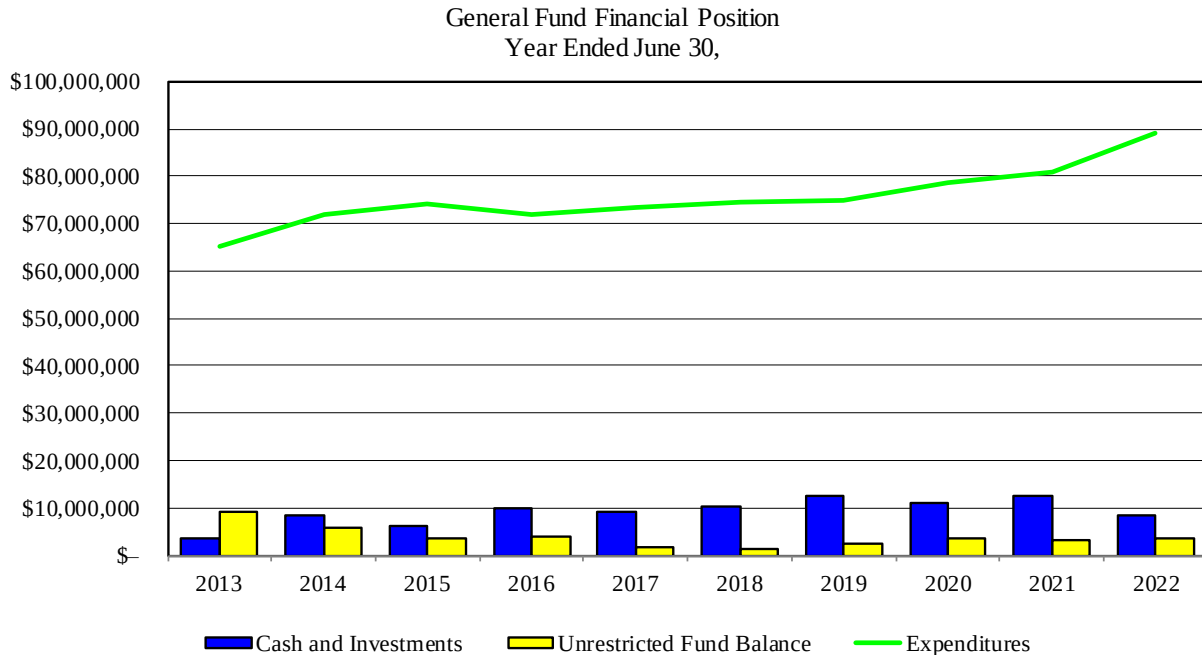
SUMMARY

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

FINANCIAL TRENDS OF YOUR DISTRICT

GENERAL FUND FINANCIAL POSITION

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



The District ended fiscal year 2022 with a General Fund cash and investments balance (net of borrowing) of \$8,514,523, a decrease of \$4,078,870 from the previous year. The unrestricted fund balance in the General Fund at year-end (excluding restricted fund balance deficits) was \$3,710,848, an increase of \$543,211.

Legislatively-approved changes in the metering of state aid payments to school districts and in the tax shift significantly impacted cash and investment balances in certain years, presented in the graph above.

GENERAL FUND COMPONENTS OF FUND BALANCE

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

	June 30,				
	2018	2019	2020	2021	2022
Nonspendable fund balances	\$ 170,007	\$ 151,143	\$ 37,519	\$ 146,426	\$ 125,360
Restricted fund balances (1)	795,382	(155,042)	(817,251)	(420,040)	(1,991,897)
Unrestricted fund balances					
Assigned	461,114	583,713	475,778	451,669	250,117
Unassigned	710,967	1,922,781	2,951,198	2,715,968	3,460,731
Total fund balance	<u>\$ 2,137,470</u>	<u>\$ 2,502,595</u>	<u>\$ 2,647,244</u>	<u>\$ 2,894,023</u>	<u>\$ 1,844,311</u>
Unrestricted fund balances as a percentage of expenditures	<u>1.6%</u>	<u>3.4%</u>	<u>4.3%</u>	<u>3.9%</u>	<u>4.2%</u>
Unassigned fund balances as a percentage of expenditures	<u>1.0%</u>	<u>2.6%</u>	<u>3.7%</u>	<u>3.4%</u>	<u>3.9%</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.					

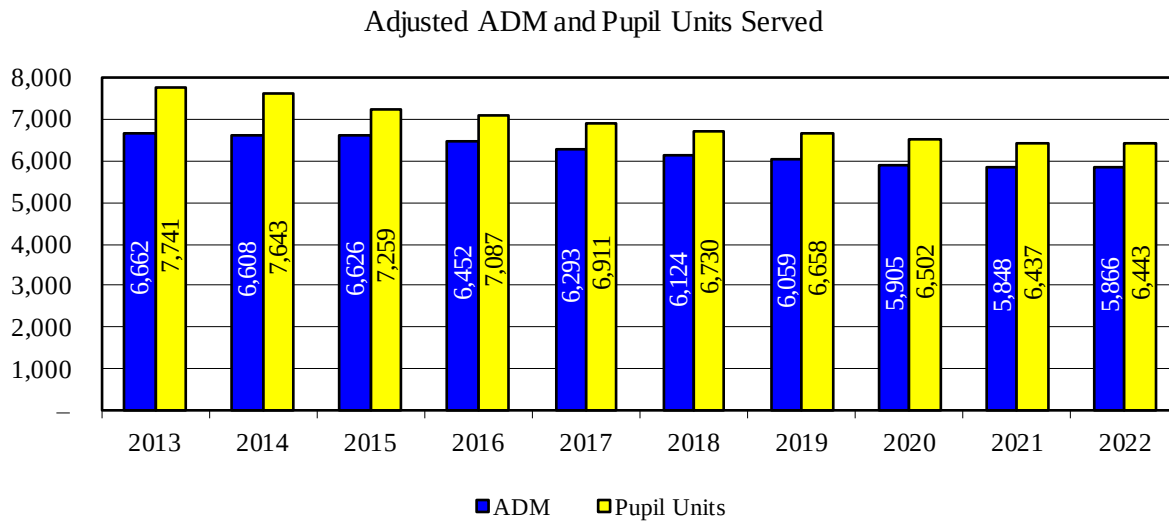
The table above reflects the total General Fund unrestricted fund balance and percentages, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula. The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

Through legislative changes in funding, public school districts have become extremely dependent on state revenues to finance operations. Considering the demands placed on the state's limited resources, we believe it is particularly important to maintain an adequate level of fund balance. We want to emphasize the importance of maintaining an adequate fund balance and the importance of reviewing these fund balance levels on a continuing basis.

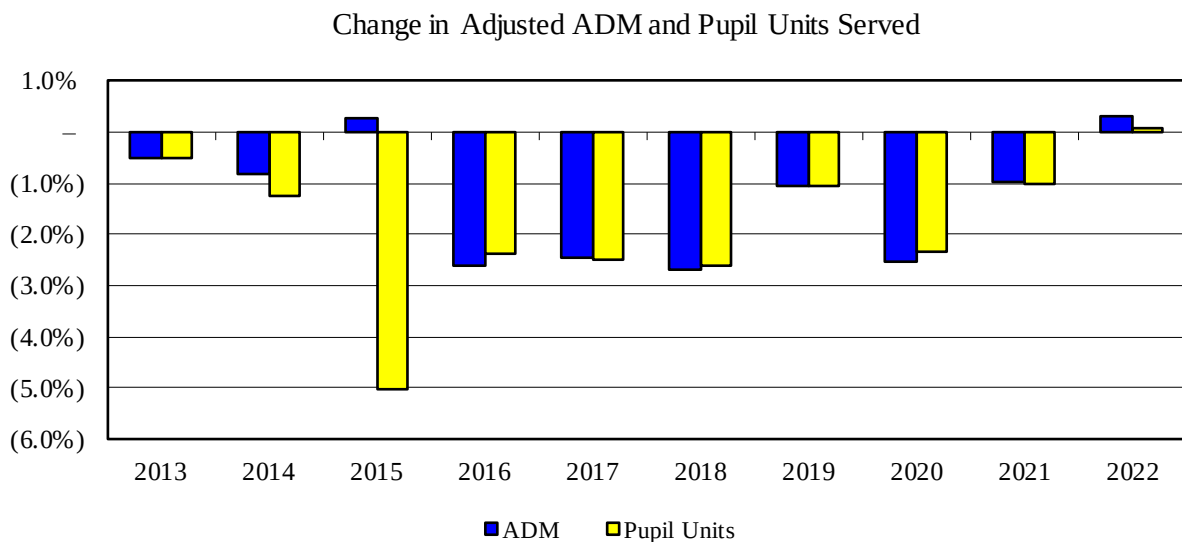
At June 30, 2022, unrestricted fund balance in the General Fund represented 4.2 percent of annual expenditures, or slightly more than two weeks of operations assuming level spending throughout the year.

AVERAGE DAILY MEMBERSHIP 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:



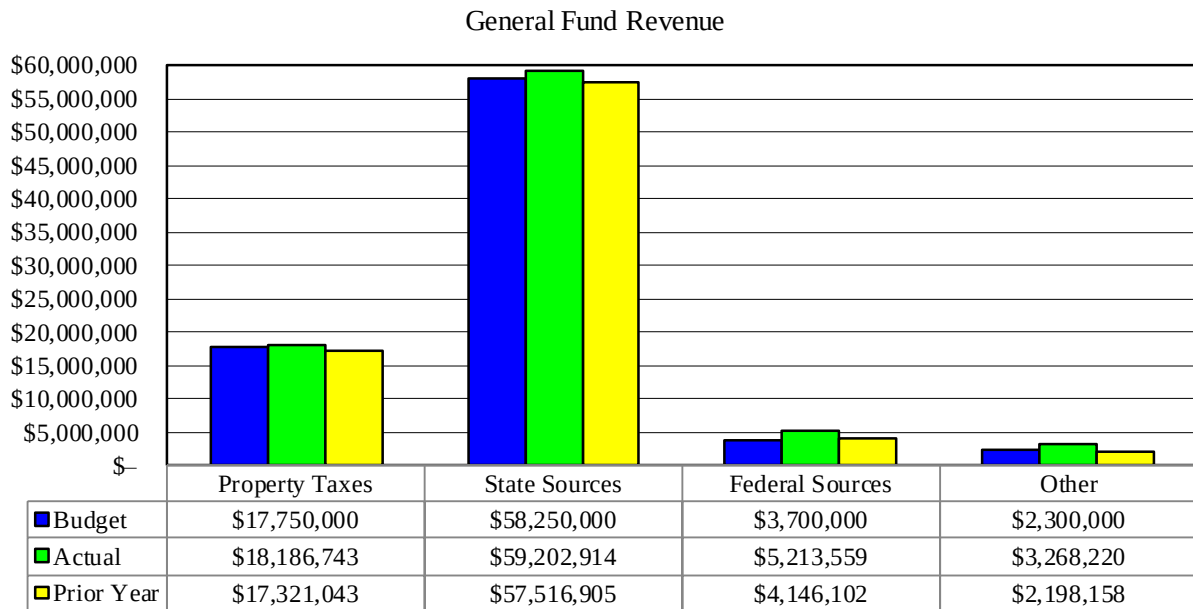
The change in pupil units for 2015 includes the effect of legislative reductions to pupil units.

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 ADM of 5,866, an increase of 18 ADM, or 0.3 percent, from the prior year. The number of pupil units served by the District for fiscal 2022 was 6,443, an increase of 6 (0.1 percent) from the prior year.

GENERAL FUND REVENUES

The following graph presents the District's General Fund revenue for 2022:



Total General Fund revenues were \$85,871,436 for the year ended June 30, 2022, which was \$3,871,436 (4.7 percent) over the final budget and \$4,689,228 more than the prior year.

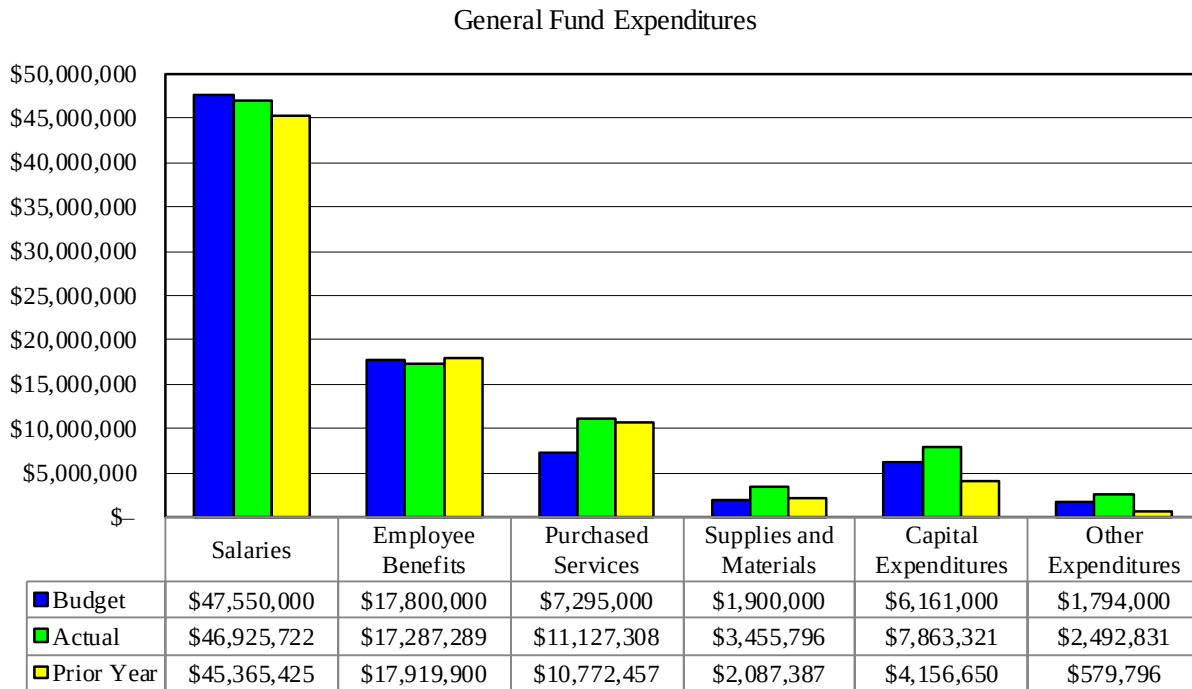
The variance to budget was mainly in state sources, federal sources, and other local sources, which were \$952,914, \$1,513,559, and \$968,220 over budget, respectively. State sources were over budget in special education funding. Federal sources were over budget, due to more than anticipated COVID-19 pandemic-related grants. The variance to budget in other local sources was due to the District collecting more fees and charges as pandemic restrictions eased.

The increase from the prior year was primarily in state sources, federal sources, and other local sources. State sources increased, mainly in general education aid and special education aid. As previously mentioned, federal sources were up, due to more COVID-19 pandemic-related grants. Other local sources were up, largely in fees and charges for services, with easing pandemic restrictions and the return of students to the classroom.

The graph above reflects the concentration of state sources (68.9 percent), followed by property taxes (21.2 percent) received to finance General Fund operations.

GENERAL FUND EXPENDITURES

The following graph presents the District's General Fund expenditures for 2022:



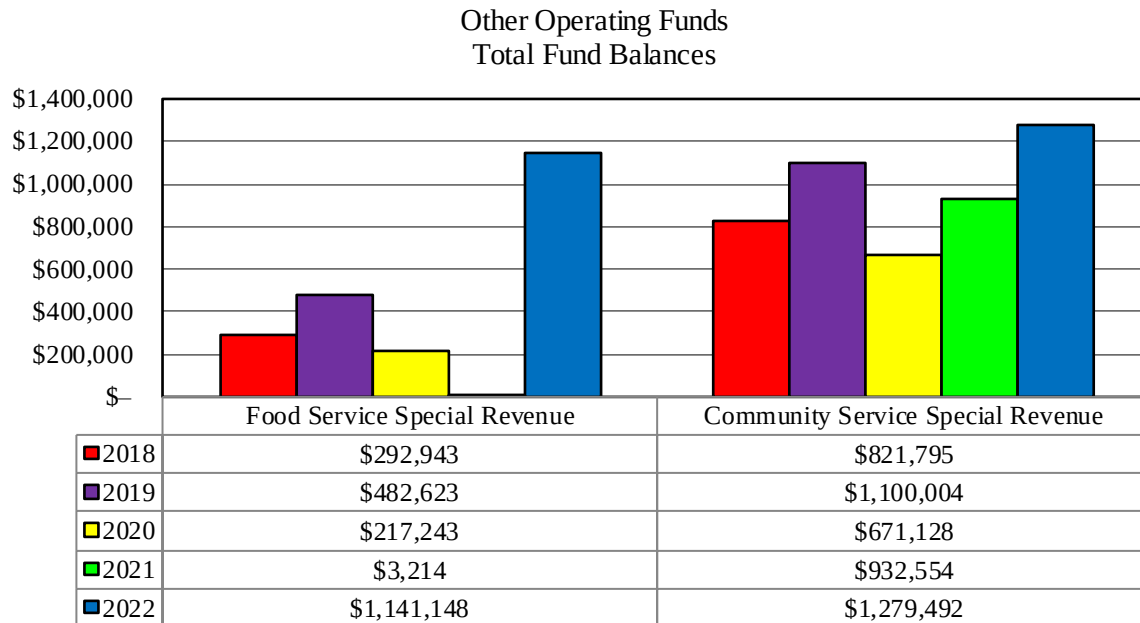
Total General Fund expenditures were \$89,152,267 for the year ended June 30, 2022, which was \$6,652,267 (8.1 percent) over the final budget and \$8,270,652 (10.2 percent) more than the prior year.

The variance to budget was spread across several categories as noted above, with the largest variance in purchased services, supplies and materials, and capital expenditures. Purchased services were \$3,832,308 over budget, mainly in tuition, transportation, and utility costs. Supplies and materials were \$1,555,796 over budget, due to the easing COVID-19 restrictions and the return of students to the classroom. Capital expenditures were \$1,702,321 over budget, due to a lease recognized in the current year under the new lease standard reporting.

The increase from the prior year was mainly in capital expenditures and other expenditures. Capital expenditures increased \$3,706,671, due to the timing of projects and a lease recognized in the current year under the new lease standard reporting, as previously mentioned. Other expenditures increased \$1,913,035, mainly in debt service with the implementation of the lease standard.

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 equity increased \$1,137,934 in 2022, compared to a planned increase of \$200,000. Revenues were \$209,978 over budget, mainly in federal sources, while expenditures were \$715,411 under budget, primarily in supplies and materials. Participation levels were difficult to anticipate with the changing learning models, along with programming changes in the financing of school nutrition programs, contributing to the variances in revenues and expenditures, compared to budget and the prior year. The Food Service Special Revenue Fund had a year-end fund balance of \$1,141,148, representing 25.4 percent of annual expenditures totaling \$4,484,589.

Over the years, we have emphasized to our school district clients that food service operations should be self-sustaining, and should not become an additional burden on general education funds. This would include the accumulation of fund balance for future capital improvements to food service facilities and to provide a cushion in the event of a negative trend in operations.

COMMUNITY SERVICE SPECIAL REVENUE FUND

The District's Community Service Special Revenue Fund equity increased \$346,938 in 2022, compared to a budgeted increase of \$32,135. Revenues were \$657,617 over budget, mainly in federal sources and tuition and fees. Expenditures were over budget by \$342,814, primarily in purchased services. Conservative budgeting for program participation, with uncertainty related to the pandemic, contributed to the revenue and expenditure budget variances. The Community Service Special Revenue Fund had a year-end fund balance of \$1,279,492, representing 26.2 percent of annual expenditures totaling \$4,886,098.

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 decrease in fund balance of \$3,298,614, compared to a \$2,290,000 decrease anticipated in the budget. Capital outlay expenditures were more than budget, due to the timing of project costs. At year-end, the District reported a deficit unassigned fund balance of \$624,566, which will be reimbursed with proceeds from a future bond issue.

DEBT SERVICE FUND

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. It is important to remember that resources of the Debt Service Fund are restricted to the payment of outstanding debt obligations of the District. As of June 30, 2022, the District has \$1,932,948 available for future debt service.

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 maintains two internal service funds. These funds are used to account for the health and dental insurance plans offered by the District to its employees as self-insured plans.

The internal service funds had a net position deficit as of June 30, 2022 of \$1,522,584, which represents a decrease of \$2,939,592 from the prior year, mainly due to the significant increase in health benefit claims in the current year.

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 \$709,309 is available for future OPEB payments.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents district resources available for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, this statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized reconciliation of the District's governmental fund balances to net position, and the separate components of net position for the last two years:

	June 30,		
	2022	2021	Change
Net position – governmental activities			
Total fund balances – governmental funds	\$ 5,573,333	\$ 8,064,837	\$ (2,491,504)
Total capital assets, net of depreciation/amortization	205,854,872	200,199,352	5,655,520
Total long-term debt (without pensions and OPEB)	(169,179,088)	(169,775,947)	596,859
Pension adjustments	(67,935,305)	(72,657,921)	4,722,616
OPEB adjustments	(9,509,642)	(9,079,347)	(430,295)
Other adjustments	(3,173,971)	(196,898)	(2,977,073)
Total net position – governmental activities	<u><u>\$(38,369,801)</u></u>	<u><u>\$(43,445,924)</u></u>	<u><u>\$ 5,076,123</u></u>
Net position			
Net investment in capital assets	\$ 42,525,055	\$ 39,310,681	\$ 3,214,374
Restricted	2,561,191	1,065,259	1,495,932
Unrestricted	<u>(83,456,047)</u>	<u>(83,821,864)</u>	<u>365,817</u>
Total net position	<u><u>\$(38,369,801)</u></u>	<u><u>\$(43,445,924)</u></u>	<u><u>\$ 5,076,123</u></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 vacation payable, severance payable, net pension, and net OPEB liabilities.

Total net position increased by \$5,076,123 during fiscal 2022. As presented in the table above, this change was primarily in net investment in capital assets. The change in this category of net position typically depends on the relationship between the rate at which the District is adding capital assets, the rate at which the District's capital assets are being depreciated/amortized, and how that compares to the rate at which the District is repaying the debt issued to purchase or construct those assets.

The District's increase in net position restricted for food service, community service, and other state funding restrictions contributed to the increase in the restricted portion of net position. The change in unrestricted net position is due to changes in the District's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association pension plan liabilities and related deferments, offset by the decline in the internal service net position.

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. Due to the COVID-19 pandemic, the GASB has delayed the original implementation dates of these and other standards as described below.

GASB STATEMENT NO. 96, *SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS*

This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

This statement provides an exception for short-term SBITAs with a maximum possible term under the SBITA contract of 12 months, including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB STATEMENT NO. 99, *OMNIBUS 2022*

The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to refer to resource flows statements.

The requirements of this statement that are effective are as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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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