Management Report

for

Independent School District No. 719
Prior Lake, Minnesota

June 30, 2022

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA
Jaclyn M. Huegel, CPA
Kalen T. Karnowski, CPA

To the School Board and Management of
Independent School District No. 719,
Prior Lake-Savage Area Schools
Prior Lake, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 719, Prior Lake-Savage Area Schools' (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 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.

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

Minneapolis, Minnesota
October 17, 2022

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Phone: 952-545-0424 • Fax: 952-545-0569 • www.mmkr.com

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AUDIT SUMMARY

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the District's 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.

- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.

- We reported a deficiency in the District's internal controls over compliance that we considered to be a material weakness with the types of compliance requirements that could have a direct and material effect on its major federal programs. The results of our tests also noted noncompliance with the types of compliance requirements that could have a direct and material effect on its major federal programs, as noted in the finding summary.

    - **Finding Summary**

        47 CFR § 54.1713 prohibits the District from the resale of eligible equipment and services purchased with Emergency Connectivity Fund (ECF) support. Also, 47 CFR § 54.1710 requires that the District only seek support for eligible equipment provided to students and school staff who would otherwise lack connected devices sufficient to engage in remote learning. The District did not have sufficient controls in place to prevent the resale of equipment purchased with ECF support and to comply with equipment/real property management and special tests and provisions requirements as it pertains to seeking reimbursement for eligible equipment.

- We reported no findings based on our testing of the District's compliance with Minnesota laws and regulations.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the District's financial statements for the year ended June 30, 2022, we performed procedures to follow-up on any findings and recommendations that resulted from our prior year audit. We reported the following findings that were corrected by the District in the current year:

Internal Control Over Compliance with Federal Award Programs Cash Management Requirements

2 CFR § 200.305 (b) (3) requires the District to have written procedures and internal controls to ensure compliance with cash management requirements. The District's written policies over cash management requirements lacked discussion of reimbursement-based grants. Also, the District must disburse its own funds for program purposes before requesting reimbursement from the pass-through entity. Our prior year audit reported the District did not have sufficient controls in place to assure that funds were not requested prior to payment of its own funds for allowable costs.

Late Payment of Bills

Minnesota Statutes § 471.425, Subd. 2, requires prompt payment of local government bills within a standard payment period of 35 days from receipt for governing boards that meet at least once a month. During our prior year audit, we noted 2 of 40 disbursements we tested were not paid within the statutory timeline.

Late Filing of Other Post-Employment Benefit (OPEB) Reporting Form

Minnesota Statutes § 471.6175 requires the District, as the trust administrator, to report the investment return information for the Other Post-Employment Benefit (OPEB) Trust no later than October 25th, to the State Auditor's Office. This requirement was not met by the District for the prior year, as the District did not file this report on a timely basis.

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:

GASB Statement No. 87, *Leases.* The implementation of this GASB statement in the current year resulted in no change to net position as of July 1, 2021. More information on this change in accounting principle can be found in Notes, 1, 3, and 4 of the notes to the basic financial statements of the Annual Comprehensive Financial Report.

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

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

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

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

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

The District has recorded a liability in the Statement of Net Position for compensated absences payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded activity for OPEB and pension benefits. These obligations are calculated using actuarial methodologies primarily described in GASB Statement Nos. 68, 73, and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

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

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

We evaluated the key factors and assumptions used by management to develop the estimates discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. 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 October 17, 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 (MD&A) 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, which includes the separately issued Schedule of Expenditures of Federal Awards and Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table, which are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled this 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

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. This section provides some 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.

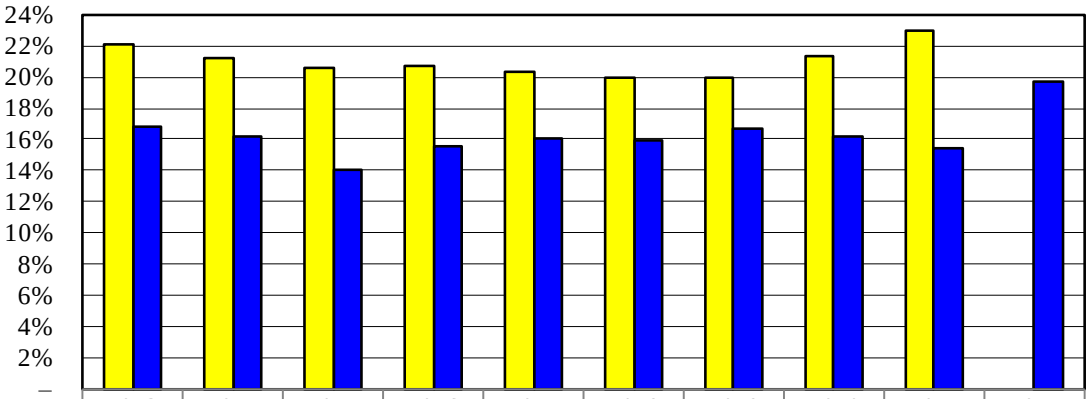
The table below presents a summary of the formula allowance for the past decade and as approved for the current audit period and the next fiscal year. The Legislature approved a per pupil increase of $135 for fiscal 2023. The amount of the formula allowance and the percentage change from year-to-year 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.

State-Wide Unrestricted Operating Fund Balance
as a Percentage of Operating Expenditures



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
State-Wide	22.1%	21.2%	20.6%	20.7%	20.3%	20.0%	19.9%	21.3%	23.0%	–
ISD No. 719	16.8%	16.2%	14.0%	15.6%	16.1%	16.0%	16.7%	16.2%	15.4%	19.7%

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.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 19.7 percent at the end of the current year, as compared to 15.4 percent at June 30, 2021.

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. 719 – Prior Lake-Savage Area Schools		
	2020	2021	2020	2021	2020	2021	2022
General Fund							
Property taxes	$ 2,345	$ 2,576	$ 3,100	$ 3,411	$ 1,967	$ 2,037	$ 2,078
Other local sources	538	438	417	323	306	198	272
State	10,144	10,514	10,127	10,517	9,119	9,238	9,832
Federal	480	992	499	956	191	441	521
Total General Fund	13,507	14,520	14,143	15,207	11,583	11,914	12,703
Special revenue funds							
Food Service	554	576	539	568	570	579	742
Community Service	632	612	732	684	722	595	796
Debt Service Fund	1,322	1,512	1,385	1,549	1,787	1,796	1,882
Total revenue	$ 16,015	$ 17,220	$ 16,799	$ 18,008	$ 14,662	$ 14,884	$ 16,123
ADM served per MDE School District Profiles Report (current year estimated)					8,936	8,832	8,886

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.

The District's total governmental fund revenue per student was $16,123 in fiscal 2022. This compares to a metro area average of $18,008 for fiscal 2021 (most recent data available). Most of the difference is in the General Fund as property taxes and state aids are well below metro area averages. This is offset by higher than average Debt Service Fund revenues, mainly due to the recently approved building bond referendum.

The District earned approximately $143 million in the governmental funds reflected above in fiscal 2022. Total revenue per ADM served increased by $1,239 per student. Revenue from state sources was higher by $594 per ADM from the increase in the general education formula allowance and special education state aids. Revenue from General Fund federal sources was $80 per pupil more than last year related to additional federal revenue received from COVID-19-related grants and aid. Food Service Special Revenue Special Revenue increased $163, mostly in meal sales after COVID-19-related declines the prior two fiscal years. Community Service Special Revenue Fund revenue increased $201 per student, as many of these programs were impacted by the pandemic during fiscal 2020 and 2021. Debt Service Fund revenues increased $86 per ADM, due to scheduled debt service levy increases.

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. 719 – Prior Lake-Savage Area Schools		
	2020	2021	2020	2021	2020	2021	2022
General Fund							
Administration and district support	$ 1,093	$ 1,184	$ 1,100	$ 1,205	$ 829	$ 878	$ 871
Elementary and secondary regular instruction	5,881	6,198	6,231	6,527	5,439	5,415	5,743
Career and technical instruction	186	197	171	179	71	80	93
Special education instruction	2,481	2,626	2,626	2,792	2,098	2,126	2,159
Instructional support services	683	812	787	917	728	767	782
Pupil support services	1,203	1,228	1,316	1,285	892	965	1,035
Sites, buildings, and other	952	1,083	910	1,052	951	1,022	989
Total General Fund – noncapital	12,479	13,328	13,141	13,957	11,008	11,253	11,672
General Fund capital expenditures	748	793	717	815	721	1,000	455
Total General Fund	13,227	14,121	13,858	14,772	11,729	12,253	12,127
Special revenue funds							
Food Service	556	532	548	522	548	563	616
Community Service	661	610	774	682	730	650	678
Debt Service Fund	1,360	1,576	1,379	1,609	1,774	1,836	1,880
Total expenditures	$ 15,804	$ 16,839	$ 16,559	$ 17,585	$ 14,781	$ 15,302	$ 15,301
ADM served per MDE School District Profiles Report (current year estimated)					8,936	8,832	8,886

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's expenditures per ADM have been well below the metro area average in recent years, mainly in General Fund instructional areas, including elementary, secondary, and special education. Pupil support services (which includes transportation), and administration and district support services are also well below these averages.

The District spent approximately $136 million in the governmental funds, reflected above, in fiscal 2022. On a per student basis, this represents a decrease of $1. General Fund operating expenditures (excluding capital) increased $419 per student, mainly in elementary and secondary regular instruction, which increased $328 per ADM, mainly for salaries and employee benefits. General Fund capital expenditures decreased $545 per pupil, mainly due to decreased spending for sites and building during the year.

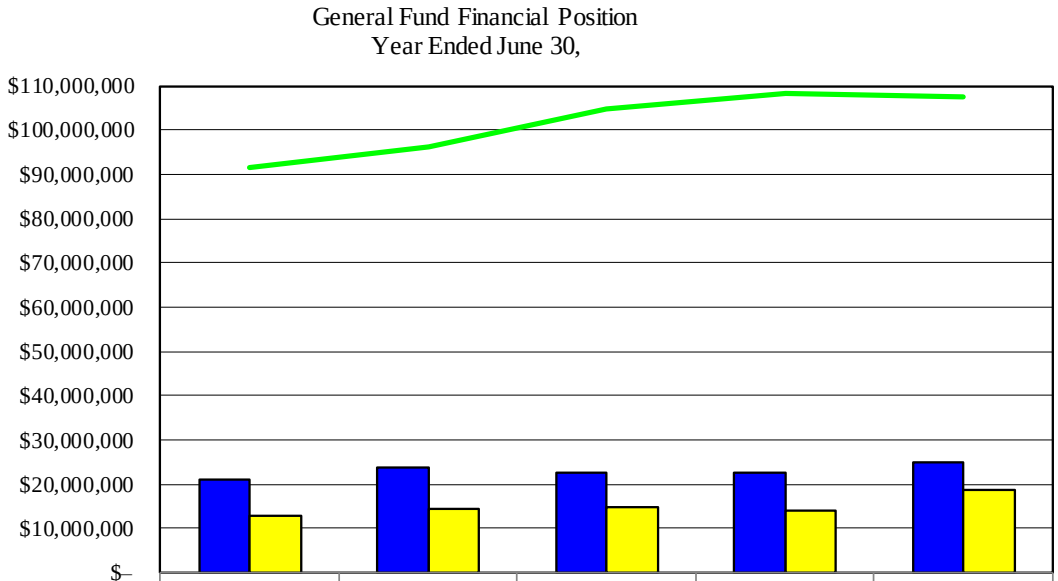
SUMMARY

The COVID-19 pandemic caused numerous financial and operational challenges for districts over the past three fiscal 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. Similar challenges are expected to continue into the foreseeable future, as districts strive to provide a safe and effective learning experience for their students in a changing 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.



	2018	2019	2020	2021	2022
Cash and Investments	$21,211,200	$23,934,006	$22,516,044	$22,828,574	$25,096,056
Unrestricted Fund Balance	$12,841,489	$14,475,987	$14,834,171	$14,198,814	$18,663,494
Expenditures	$91,461,824	$96,414,815	$104,817,156	$108,222,068	$107,755,132

The District ended fiscal year 2022 with a General Fund unrestricted fund balance (consisting of any committed, assigned, and unassigned fund balances) at year-end totaling $18,663,494, an increase of $4,464,680.

In total, General Fund revenue and other financing sources were more than expenditures by $5,830,091. This compares to a budget that projected a decline in fund balance of $2,166,997. Revenues were higher than budget projections by $2,287,337, expenditures were less than budget by $5,003,718, and other financing sources exceeded budget by $706,033.

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

	June 30,				
	2018	2019	2020	2021	2022
Nonspendable fund balances	$ 313,933	$ 106,188	$ 159,225	$ 383,569	$ 337,873
Restricted fund balances (1)	3,181,737	4,691,131	4,189,108	1,584,948	3,013,679
Unrestricted fund balances					
Assigned	3,521,068	3,684,813	5,196,415	6,389,482	7,332,842
Unassigned	9,320,421	10,791,174	9,637,756	7,826,956	11,330,652
Total fund balance	$ 16,337,159	$ 19,273,306	$ 19,182,504	$ 16,184,955	$ 22,015,046
Unrestricted fund balances as a percentage of expenditures	14.0%	15.0%	14.2%	13.1%	17.3%
Unassigned fund balances as a percentage of expenditures	10.2%	11.2%	9.2%	7.2%	10.5%

(1) Includes deficits in restricted fund balance accounts allowed to accumulate deficits under UFARS, which are part of unassigned fund balance on the accounting principles generally accepted in the United States of America-based financial statements.

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

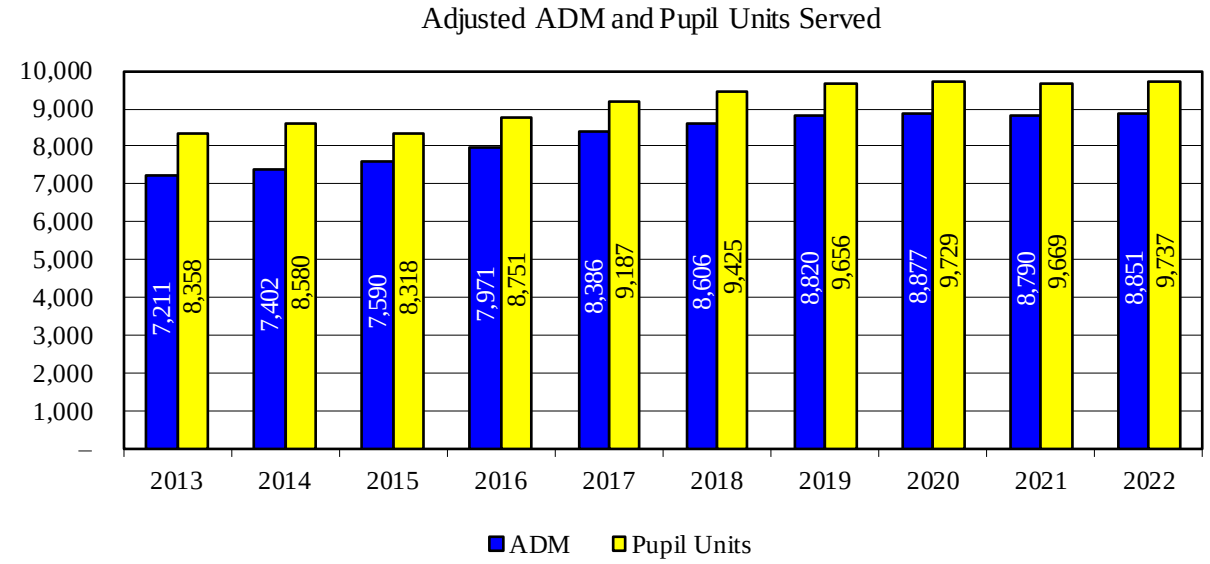
Minimum Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding maintaining a minimum fund balance for the General Fund. The policy states that the District will strive to maintain a minimum total unassigned and assigned General Fund balance of 8.0 to 12.0 percent of the annual budget (4–6 weeks of operating expenses).

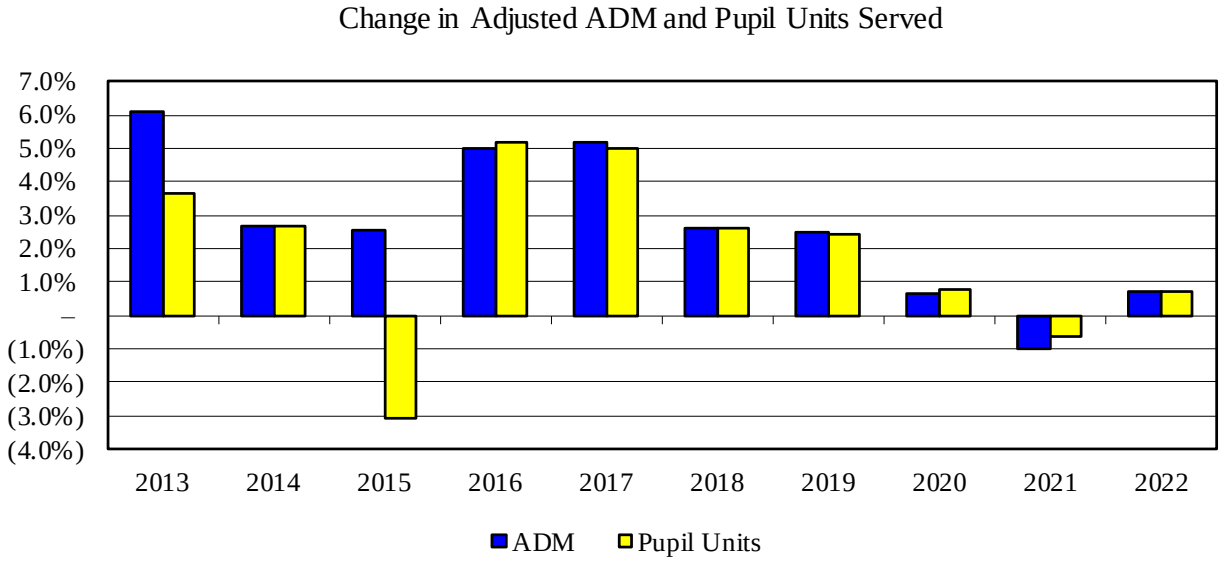
At June 30, 2022, the total assigned and unassigned fund balance of the General Fund was 17.3 percent of the fiscal 2022 General Fund expenditures.

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:



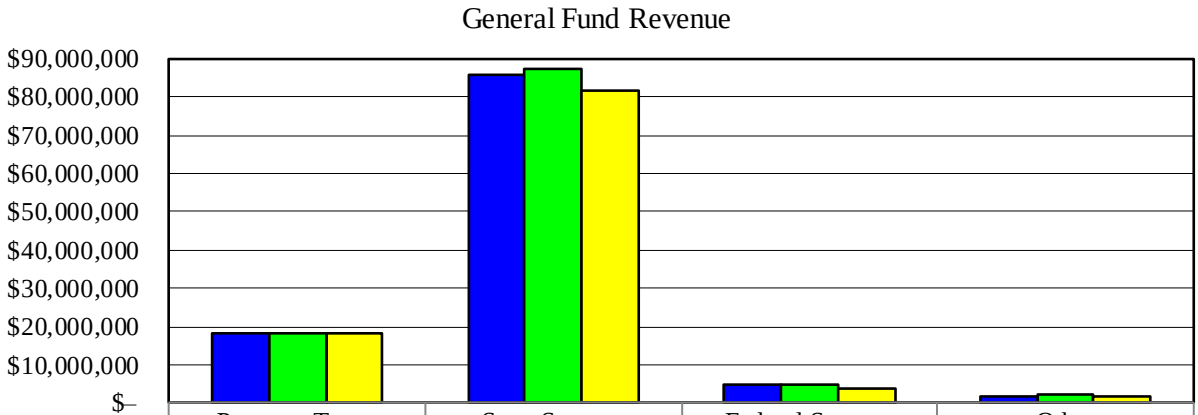
The change in pupil units for 2015 includes the effect of legislative reductions to pupil units.

The District served an estimated adjusted ADM of 8,851 in 2022, an increase of 61 from the previous year.

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.

GENERAL FUND REVENUES

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



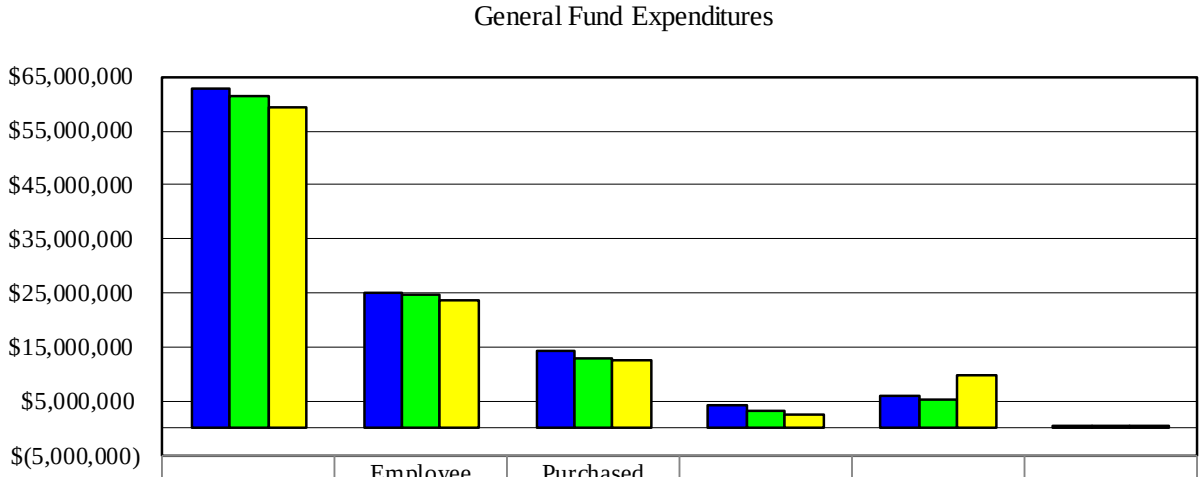
	Property Taxes	State Sources	Federal Sources	Other
Budget	$18,293,855	$85,756,868	$4,970,023	$1,571,107
Actual	$18,466,543	$87,368,960	$4,628,647	$2,415,040
Prior Year	$17,993,638	$81,587,153	$3,894,019	$1,749,703

Total General Fund revenues were $112,879,190 for the year ended June 30, 2022, which was $2,287,337 over the final budget. General Fund revenues were over budget, mainly in state sources, as state special education state aid exceeded revenue projections.

Total General Fund revenue increased by $7,654,677 in fiscal year 2022. Revenue increases in the current year were mainly in state sources, as both general education and state special education aid increased as a result of increases in the number of students and increases in the formula.

GENERAL FUND EXPENDITURES

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



	Salaries	Employee Benefits	Purchased Services	Supplies	Capital	Other
Budget	$62,772,544	$25,005,512	$14,133,148	$4,394,354	$5,981,468	$471,824
Actual	$61,302,424	$24,576,629	$12,933,351	$3,317,712	$5,142,946	$482,070
Prior Year	$59,293,789	$23,724,505	$12,463,132	$2,337,540	$9,932,094	$471,002

Total General Fund expenditures were $107,755,132 for the year ended June 30, 2022, which was $5,003,718 under the final budget.

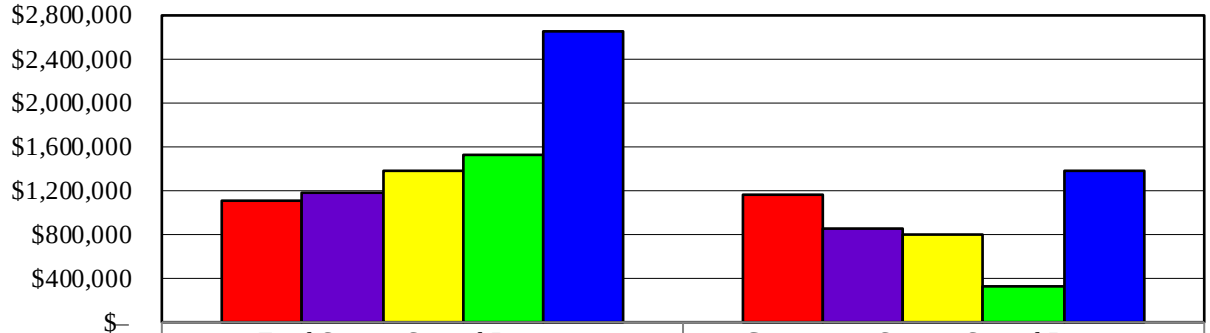
Salaries and benefits were under budget by $1,899,003, mainly in costs for severance, quality compensation (Q-Comp) plan costs, and paraprofessional expenditures related to unfilled positions in the current year. Purchased services were less than budget by $1,199,797, mainly in costs related to professional development. Supplies were under budget by $1,076,642, mainly for regular instruction and sites and building-related costs.

Total General Fund expenditures decreased by $466,930 in fiscal year 2022. Salaries increased $2,008,635 and employee benefits increased $852,124. The increase in salaries and benefits is attributed to employee contract improvements. Capital decreased by $4,789,148 from the prior year. The decrease is mainly due to the reduction in the needs in this area, as projected in the District's budget.

OTHER FUNDS OF THE DISTRICT

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

Other Operating Funds
Total Fund Balances



	Food Service Special Revenue	Community Service Special Revenue
2018	$1,119,144	$1,159,003
2019	$1,185,213	$859,336
2020	$1,389,376	$810,236
2021	$1,529,574	$324,359
2022	$2,650,299	$1,375,746

Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2022 with a fund balance increase of $1,120,725, compared to a budgeted decrease of $202,466. Other revenue, which includes meal sales exceeded budgeted projections by $595,758, due to higher-than-expected participation. Federal revenues exceeded budget projections by $362,092, due to unanticipated meal rate reimbursement increase. Expenditures were under budget by $552,395, mainly in supplies and material and capital-related expenditures totaling $278,271 and $365,632, respectively.

The ending fund balance of $2,650,299 represents 48.5 percent of current year expenditures.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended fiscal 2022 with a fund balance increase of $1,051,387, compared to a budgeted increase of $414,346. Revenue exceeded budget projections by $373,736, as program revenues were higher than anticipated. Expenditures were less than budget by $263,305, mainly for salaries and benefits from unfilled positions.

The ending fund balance of $1,375,746 in this fund represents 22.8 percent of current year expenditures.

Over the years, we have emphasized to our clients that food service and community service operations should be self-sustaining and should not become an additional burden on general education funds.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund balance decreased by $744,728, resulting in a fund balance of $10,412 at June 30, 2022. The decrease is due to a planned spend down of funds to build new buildings and additions after the passing of the referendum in 2017.

Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. The Debt Service Fund revenues and other financing sources exceeded expenditures and other financing uses by $121,028. The remaining fund balance of $2,250,792 at June 30, 2022, is available for meeting future debt service obligations.

INTERNAL SERVICE FUNDS

Self-Insurance Fund

This fund accounts for the District's self-insured medical and dental insurance program. Net position in this fund increased $739,913, resulting in a net position of $5,967,312 at June 30, 2022. Health insurance premium rate increases outpaced increases in insurance claim payments in the current year.

Other Post-Employment Benefits Fund

The Other Post-Employment Benefits Internal Service Fund was established to fund OPEB. This internal service fund was established to provide a source of funds to finance current and future benefit obligations to employees. On June 30, 2022, this fund had a deficit net position of ($5,542,261). The most recent independent actuarial study dated June 30, 2022, computed the present value of these benefits. The long-term liability represents total OPEB pension benefit obligations based on actuarial estimates. The District develops a strategy for funding this post-employment benefit liability. This funding is built into the ongoing annual budget. This plan includes a plan for how the District plans to avoid future reductions of regular programming that would be necessary to pay for these post-employment benefits.

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,		
	2021	2022	Change
Net position – governmental activities			
Total fund balances – governmental funds	$ 20,923,792	$ 28,302,295	$ 7,378,503
Total capital assets, net of depreciation/amortization	272,968,843	268,028,954	(4,939,889)
Total bonds, financed purchases, leases, and (premium) discount	(191,846,796)	(179,931,374)	11,915,422
Pension liability, net of deferments	(89,346,435)	(86,701,959)	2,644,476
Other adjustments	(2,671,241)	(3,316,415)	(645,174)
Total net position – governmental activities	$ 10,028,163	$ 26,381,501	$ 16,353,338
Net position			
Net investment in capital assets	$ 81,369,496	$ 86,880,033	$ 5,510,537
Restricted	3,555,403	7,530,505	3,975,102
Unrestricted	(74,896,736)	(68,029,037)	6,867,699
Total net position	$ 10,028,163	$ 26,381,501	$ 16,353,338

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 total OPEB liabilities.

The District's net investment in capital assets increased $5,510,537. This change generally relates to the relationship between the rate capital assets are being added and depreciated, and the rate at which the District is repaying the debt issued to purchase or construct those assets. The increase in the current year was also impacted by capital additions financed with available resources and capital-related levies, which do not result in additional capital-related debt.

The increase in restricted net position is mainly related to an increase in amounts restricted for capital asset acquisition and food service. Unrestricted net position deficit increased $6,867,699, mainly due to positive operating results of the District, as well as the change in the state-wide funding of pension liabilities, net of deferments, including the District's proportionate share of the Teachers Retirement Association state-wide pension plan.

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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