

BOARD MEMO

Date: February 8, 2024
For ACTION
For INFORMATION

FROM: Michael Covington, Director of Accounting

THROUGH: Dominic Turner, Chief Financial Officer
Melanie Kay-Wyatt., Ed.D., Superintendent of Schools

TO: The Honorable Michelle Rief, Chair, and
Members of the Alexandria City School Board

TOPIC: FY 2023 Annual Comprehensive Financial Report

ACPS 2025 STRATEGIC PLAN GOAL:
Goal 4: Strategic Resource Allocation

SY 2023-2024 FOCUS AREA:
All

FY 2024 BUDGET PRIORITY:
All

SUMMARY:

The independent auditors from CliftonLarsonAllen LLP (CLA) have reviewed the Annual Comprehensive Financial Report (Financial Report) as prepared by ACPS financial staff and completed the FY 2023 annual financial report on December 15, 2023. This was conducted in accordance with the standards applicable to financial audits, including Government Auditing Standards issued by the Comptroller General of the United States and the specific standards of audits for local jurisdictions issued by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The auditors' primary focus is to obtain reasonable assurance about whether the financial statements are free of material misstatement and to ensure that internal controls as defined by the audit standards are in place.

The CLA auditors are prepared to discuss this report at the School Board meeting scheduled for January 18, 2024.

DETAILS:

CliftonLarsonAllen LLP the City and Schools' external auditors, have audited the Financial Report and issued an unmodified (or "clean") opinion indicating that the financial statements fairly represented the financial position of ACPS as of June 30, 2023 (page 23).

Additionally, CLA has issued their letter to the School Board as required by the American Institute of Certified Public Accountants (AICPA) for all financial statement audits and their

report on the Division's internal control over financial reporting and on compliance and other matters (page 165). No significant deficiencies or material weaknesses of internal control or instances of noncompliance with certain provisions of laws, regulations, contracts or grant agreements or other matters were noted that could have a direct and material effect on the financial statement amounts.

The Financial Report follows the format prescribed by the Governmental Accounting Standards Board (GASB). It includes: (1) an introductory section which provides general information on the school division's structure and the services it provides; (2) a financial section which contains the basic financial statements as well as the independent auditor's report; and (3) a statistical section which provides a broad range of financial and demographic information useful in assessing ACPS' economic condition, much of it in the form of ten-year trend data.

The following key financial highlights are reflected in the report:

General Fund

For the fiscal year ended June 30, 2023, total revenues for the General Fund, were \$311.8 million, a 5.6% increase over FY 2022 actual revenues and \$0.5 million over the final budgeted revenues for FY 2023.

Total expenditures for the General Fund for FY 2023 were \$311.1 million, a 6.8% increase over FY 2022 actual expenditures and \$6.9 million less than final budgeted expenditures. Total other financing uses of the General Fund, for contributions to the City's Capital Fund and the VPI program, were \$4.2 million for FY 2023 (Exhibit IV, page 46).

The City of Alexandria appropriation was \$239.4 million towards our General Fund expenditures for FY 2023, an increase of 2.3% or \$5.4 million over FY 2022 (Exhibit IV, page 46).

At June 30, 2023, the General Fund reported a total ending fund balance of \$21.0 million, a decrease of \$3.4 million from FY 2022 (Exhibit IV, page 46). The fund balance is comprised of the following, as shown in Exhibit III, page 44:

- a) *Nonspendable*- The nonspendable portion of the fund balance amounts to \$1.9 million to cover prepaid items.
- b) *Committed*- The committed portion was \$8.7 million designated by the School Board for use in FY 2024.
- c) *Assigned*- The assigned portion was \$0.9 million, designated for various program encumbrances carried forward into FY 2024 from FY 2023.
- d) *Unassigned*- The unassigned portion was \$9.5 million, or 3.0% of total General Fund expenditures.

During the fiscal year ended June 30, 2023, ACPS adopted the new accounting standard, *Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)* issued by the Governmental Accounting Standards Board (GASB). Under this Statement, we should

recognize a right-to-use subscription asset pertaining to contracts or agreements that convey control of the right to use another party's (vendor) information technology software for a period of time, longer than 12 months. A corresponding subscription liability is also recognized. During FY 2023, ACPS capitalized Right-to-use subscription assets of \$2.3 million. These subscriptions primarily consist of web-based, digitally licensed content in support of our classroom curriculum.

Grants and Special Projects Funds

Total revenues from Grants and Special Projects funds were \$38.1 million for FY 2023, which reflected an increase of \$3.0 million from FY 2022. During FY 2023, federal grant revenues increased \$2.3 million from FY 2022 to \$31.3 million, while state grant revenues increased by \$0.3 million from FY 2022 to \$5.1 million (Exhibit IV, page 46).

School Nutrition Fund

Total revenues in the School Nutrition fund were \$11.6 million for FY 2023, a decrease of \$0.5 million from FY 2022. During FY 2023, federal and state revenues decreased \$1.8 million from FY2022 to \$9.6 million and food service expenditures increased \$0.7 million from FY 2022 to \$11.3 million (Exhibit IV, page 46). During the year, Federal government waivers that allowed all students to eat free ended. As a result, meal participation and National School Lunch and Breakfast Program revenues decreased compared to the prior year. The School Nutrition fund balance increased \$0.4 million in FY 2023 to \$6.3 million. The School Nutrition Fund is required to keep sufficient reserves on hand to fund three months of operations. The current fund balance level equates to approx. 6.7 months of operations.

Employees' Supplemental Retirement Plan

The plan year for the ACPS Supplemental Retirement Plan ended August 31, 2022. The financial status of this fund is strong. As of this plan year end, the Plan financial statements reflect a total pension liability of \$178.3 million and plan fiduciary net position of \$126.7 million, resulting in net pension liability of \$51.6 million (page 90). For the plan year ended August 31, 2022, the total pension liability increased \$31.6 million, primarily due to an increase in the plan discount rate from 4.50% to 5.25% and significant investment losses due to weakened market conditions. Since January 2013, no employer contributions are being made to the Plan. All contributions made to the Plan were by employees, at the rate of 1.50% of payroll, and totaled \$3.1 million for the fiscal year ended June 30, 2023. During FY 2023, total Plan additions were \$7.5 million, which reflected employee contributions of \$3.1 million and net investment income of \$4.1 million. Total fund deductions were \$6.9 million and consisted primarily of retiree benefit payments of \$6.6 million (Exhibit XV, page 142).

Virginia Retirement System (VRS) Pension Plans

The *net pension asset* for ACPS' portion of the *VRS Political Subdivision Retirement Plan*, totaled \$11.0 million for FY 2023, compared to \$13.1 million for FY 2022. Net pension assets are created when total pension plan assets exceed corresponding total pension liabilities (Exhibit XIII-2, page 131).

The *net pension liability* for ACPS' share of the *VRS Teacher Employers Retirement Plan*, totaled \$170.7 million for FY 2023, compared to \$142.3 million for FY 2022 (Exhibit XIII-3, page 132). Net pension liabilities are created when total pension liabilities are greater than the corresponding accumulated pension plan assets. ACPS is not able to independently, implement a financial plan to address this (unfunded) net pension liability as annual VRS contribution rates are set solely by the Virginia General Assembly. For the VRS Teachers Plan, the total (unfunded) net pension liability, including all Virginia school districts, was \$9.5 billion at June 30, 2023 (the most recent year reported), compared to \$7.8 billion for the prior year.

Other Post-Employment Benefits Trust Fund (OPEB)

As of June 30, 2023, the ACPS Other Post-Employment Benefits (OPEB) Trust fund reflected total net position of \$28.5 million, an increase of \$2.0 million from FY 2022 (Exhibit XIV, page 141).

ACPS contributed \$1.8 million to OPEB during FY2023 towards the cost of retiree health premium subsidies in the current fiscal year, while net investment losses totaled \$6.5 million.

Total fund deductions were \$1.8 million and consisted primarily of healthcare benefit payments made to the Health Benefits Fund to subsidize current retiree health coverage (Exhibit XV, page 142).

Health Benefits Fund

For FY 2023, total revenues in the Health Benefits Fund were \$34.7 million, and total expenses were \$34.1 million. At June 30, 2023, the Health Benefits Fund net position was \$12.7 million (Exhibit V, page 48). This reflected an increase of \$0.6 million from FY 2022 (Exhibit VI, page 49). The auditors' letter of communication to ACPS governance will be included with the Financial Report submission to the School Board.

RECOMMENDATION: The Superintendent recommends that the School Board accept the FY 2023 Annual Comprehensive Financial Report.

IMPACT: Financial reporting for fiscal year 2023 is completed.

ATTACHMENTS:

1. FY 2023 Annual Comprehensive Financial Report
2. Auditor's Governance Letter to the School Board

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