

Ketchikan Gateway Borough School District

333 Schoenbar Rd. • Ketchikan, Alaska 99901

Ph. (907) 247-2109 Fax: (907) 247-3820

Michael Robbins, Superintendent • Melissa Johnson, Director of Support Services

Daniel Schuler, Business and Operations Manager • Sally Stockhausen, Special Services

Alonso Escalante, Human Resources Director



January 9, 2025

To: Michael Robbins & the KGBSD School Board

From: Daniel B. Schuler

RE: Audit Report Update

This memorandum is intended to provide an update on the status of the delivery of the FY2023-2024 Audit Report for Ketchikan Gateway Borough School District (KGBSD).

There have been several items that have been introduced into the process that have provided many conversations and meetings to ensure that those items are appropriately reflected in the audit for FY2023-2024. The first dealt with months long conversations with the Department of Education and Early Development (DEED) about the possibility of KGBSD utilizing prior fiscal years difference between the authorized amount of funding from the Ketchikan Gateway Borough (KGB) and the Foundation Formula calculated maximum local contribution from KGB to, through an in-kind contribution, pay down the existing health insurance note receivable existing on the books as of June 30, 2023.

After receiving from DEED a written statement that they would allow the in-kind contribution and further discussions with our auditors as to the mechanism that allow that to happen, KGBSD Administration met with KGB Administration to discuss the possibility of putting this in motion. After much thoughtful discussion, all parties concluded that KGB would follow through with their previous idea of reducing the Foundation Formula calculated maximum local contribution by \$1,000,000 each fiscal year moving forward and allocating that amount to reduce the health insurance note receivable.

Subsequent to that decision, KGB moved forward with Ordinance 2057 increasing KGBSD's spending authority by \$1,768,395 and authorizing an On-Behalf Contribution to the health insurance note receivable. This transaction would be accounted for by KGB in fiscal year 2023-2024. This raised the issue of following the Governmental Accounting Standards Board statement no. 33, accounting and financial reporting for nonexchange transactions.

That statement generally calls for revenue to be measurable and available for it to be included in the financial statements of a governmental entity. Generally, revenues are to be measurable and available after the end of a fiscal year within sixty days (60) to be recognized in the financial statements. In this case, again, numerous meetings and conversations were held to determine how to reflect that transaction to make sure that the books of KGBSD were in alignment with the books of KGB. It was finally agreed that the transaction would be included in Fiscal Year 2023-2024 and not in Fiscal Year 2024-2025.

What is still being discussed is whether or not the transaction on KGBSD's books relating to KGB's Ordinance 2057 should be accounted for in KGBSD's Operation Fund. In a practice that began more than a decade ago with the audit firm BDO before Altman Rogers took over the audit, the change in the health insurance note payable was reflected as a long-term liability and therefore not reflected in KGBSD's Operating Fund. When the year end adjusting journal entry to account for the change in health insurance note payable was made, it did not impact the Operating Fund. With the health insurance

note payable residing outside the Operating Fund, the outstanding question is should the On-Behalf Contribution be treated as a reduction of the long-term liability that resides outside the Operating Fund Balance Sheet.

With that being the only outstanding issue, once a decision has been finalized as to the treatment of that transaction, the audit will be ready to be finalized and submitted to DEED. I am meeting with representatives of Altman Rogers on Wednesday January 8, 2025, to further discuss this situation and hope to have resolution in short order.