Chatham School District
Finance Narrative – August 2026

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FY26 Year-End Financial Position

With additional year-end entries now posted, the district's FY26 financial position is clearer—and more concerning—than the preliminary results presented in July.

FY26 General Fund revenue totaled **$4,949,228.75**, while General Fund expenditures totaled **$5,129,641.06**. This represents expenditures exceeding revenues by approximately **$180,412** before consideration of other fund balance activity. Additionally, FY26 General Fund expenditures exceeded the final amended expenditure budget by approximately **$464,575**.

This is a significant change from the preliminary year-end information reported to the Board in July, when the financial statements were still incomplete and reflected approximately $4.32 million in revenue and $4.46 million in expenditures. At that time, I cautioned that E-Rate and TRS/PERS On-Behalf entries remained outstanding and that the final year-end operating result could materially change.

The final results demonstrate that **FY26 was an overspent year and the district ended the fiscal year with a negative General Fund balance**. This is a significant concern both for the district's independent auditors and for the Alaska Department of Education and Early Development (DEED), particularly given the district's prior-year fund balance concerns.

The district therefore begins FY27 without a financial cushion to absorb unexpected expenditures, revenue reductions, or timing differences in cash receipts.

FY26 Revenue and Expenditure Analysis

Final FY26 General Fund revenue exceeded the amended revenue budget by approximately **$91,378**, primarily because final TRS/PERS On-Behalf revenues and other federal/state revenues were ultimately posted. Foundation Program Revenue totaled **$3,672,374**, compared with the district's original FY26 Foundation forecast of **$3,990,682**.

The larger issue at year-end was expenditures. Final General Fund expenditures of **$5,129,641** exceeded the amended $4,665,066 expenditure budget by approximately **$464,575**.

Several categories contributed materially to the overage. Certified teacher salaries exceeded budget by approximately **$250,698**; substitute/temporary staffing by approximately **$49,524**; TRS by approximately **$74,912**; electricity by approximately **$42,287**; property and liability insurance collectively by approximately **$57,993**; and staff and student travel collectively by approximately **$24,718**.

These final results underscore the importance of strengthening budget-to-actual monitoring during FY27, particularly for personnel costs, benefits, travel, utilities, insurance, and other categories that materially exceeded FY26 appropriations.

Impact on Other District Funds

The General Fund's negative year-end position has consequences beyond Fund 100.

The FY26 amended General Fund budget included **$151,678 in transfers to other funds**. However, the final budget-to-actual report shows no actual transfer recorded against that amount. With General Fund expenditures already exceeding General Fund revenues, there was insufficient revenue available to make the transfers contemplated in the amended budget.

This creates particular concern for funds that depend upon General Fund support to cover operating deficits.

For example, **Fund 255 – Food Service incurred $77,621.92 in FY26 expenditures while collecting only $40,274.47 in revenue**, leaving an operating shortfall of **$37,347.45**. Under normal circumstances, a General Fund transfer would be used to help balance that fund. However, the General Fund itself does not have sufficient resources to absorb this deficit.

This means the district's negative financial position cannot be evaluated solely by looking at Fund 100. **Deficits and required transfers in other funds may further increase the district's overall fund balance challenge as the FY26 audit is finalized.**

FY27 Financial Position Through August

Through August 31, the district has recorded **$622,442.25 in FY27 General Fund revenue** against an annual budget of approximately **$4.852 million**. Foundation Program Revenue accounts for **$578,730** of revenue recognized to date.

General Fund expenditures through August total **$182,649.62**, compared with the FY27 expenditure budget of approximately **$4.850 million**.

These early expenditure figures should **not be interpreted as an indication that the district is substantially under budget**. August represents only the first two months of the fiscal year, and most teacher salary and benefit expenditures have not yet begun posting at their normal monthly levels. The financial picture will change substantially as the school year and regular payroll cycle progress.

At the site level, expenditures recorded through August are approximately **$52,717 for Angoon, $32,316 for Gustavus, $27,209 for Klukwan, $2,186 for Correspondence, and $68,221 for Districtwide activities**.

FY27 One-Time State Funding and Financial Planning

The State of Alaska has appropriated **$115 million in one-time funding for school districts outside of the Foundation Formula for FY27**. Based on DEED's July 23, 2026 projected allocations, Chatham School District is expected to receive approximately **$282,433** from this appropriation plus **$104,588 in FY27 energy relief fund**s. This funding is separate from Chatham's projected Foundation Program allocation and represents a meaningful additional revenue source for FY27. DEED has cautioned that projected allocations remain subject to adjustment based on individual program requirements.

While this additional revenue is welcome, **I strongly recommend that the Board not assign or plan new expenditures against these funds at this time**. The additional revenue should not be viewed as immediately available funding for new positions, programs, or discretionary spending.

There are several significant reasons for this recommendation.

First, **FY27 hiring decisions have already resulted in projected personnel costs exceeding the staffing assumptions included in the adopted FY27 budget**. Personnel costs represent the district's largest ongoing expenditure, and I am continuing to analyze actual staffing commitments against the salary and benefit amounts adopted by the Board. In addition, **teacher negotiations have not yet been finalized**, creating additional uncertainty regarding the district's ultimate FY27 personnel costs.

Second, the FY27 budget contains **very little financial margin for necessary capital improvements, equipment replacement, major maintenance, or other facility needs that may arise during the year**. These are costs the district will need to address even though sufficient resources were not specifically incorporated into the adopted operating budget.

Given the district's **negative FY26 fund balance, continuing cash flow constraints, unresolved prior-year obligations, personnel costs already trending above the adopted FY27 staffing budget, and pending teacher negotiations**, the projected $282,433 in one-time funding should be treated as a financial safeguard rather than an opportunity to expand spending.

Any available margin created by this additional state revenue should be held in reserve until the district has a clearer understanding of its FY27 personnel costs, operating results, and capital needs. Because this funding is one-time in nature, using it to support recurring expenditures—particularly permanent staffing—would create an obligation that would continue after the revenue itself disappears.

Capital Improvement and Replacement Planning

The additional one-time funding also highlights the need for a more comprehensive approach to the district's capital and replacement needs.

At present, the FY27 operating budget does not provide adequate margin for the various **capital improvements, major maintenance projects, equipment replacements, and other significant facility needs** that may materialize during the fiscal year. Without a comprehensive inventory of those needs, it is difficult for the Business Office and Board to evaluate their total financial impact or establish appropriate priorities.

I recommend that the district develop a **thorough, districtwide capital improvement and replacement list** identifying known and anticipated projects and purchases. At a minimum, that list should identify the estimated cost, anticipated timing, urgency, funding eligibility or potential funding source, and consequences of delaying each item.

This information should then become part of the district's ongoing financial planning process. As FY27 actual revenues and expenditures become clearer, the Board can use the prioritized list when considering future budget revisions and determining whether available resources should be committed to specific capital needs.

Cash Flow and Continuing FY26 Obligations

The close of FY26 did **not** resolve the district's cash flow problems.

The district entered FY27 carrying substantial unpaid FY26 obligations that could not be paid by June 30 because sufficient cash was not available. These prior-year obligations must be paid from cash received during FY27 while the district simultaneously funds current-year payroll, insurance, utilities, and other operating expenses.

This is particularly concerning because the negative FY26 fund balance means the district did not enter FY27 with reserves available to absorb these obligations. **Budget authority and cash availability are two separate issues:** even where an FY27 expenditure is appropriately budgeted, the district must have sufficient cash available to actually make the payment.

The Business Office will therefore continue to prioritize payments based upon available cash and monitor the district's cash position closely throughout FY27.

FY26 Audit and DEED Compliance

The FY26 audit is now underway, and the negative year-end fund balance will be a significant area of concern during that process. The district's financial condition is also relevant to DEED's ongoing fund balance compliance requirements.

The audit continues to be complicated by documentation deficiencies associated with FY26 credit card transactions. During FY26, a significant volume of credit card purchases lacked timely receipts and coding information from district staff. Although Finance worked extensively to post those transactions before year-end, missing supporting documentation remains an audit concern.

The district also continues to work through the prior audit finding related to stale checks. SERRC began addressing that issue in May 2026, including sending more than **150 letters to stale-check recipients**. This work will continue until the remaining checks are appropriately voided, reissued, or otherwise resolved. The July narrative documented both the credit-card documentation concerns and the stale-check corrective work already underway.

FY27 Financial Priorities

The final FY26 results make careful FY27 budget management particularly important. The Business Office's priorities for the coming months will include monitoring actual personnel costs against budgeted salary and benefit assumptions, reviewing spending at the site and districtwide levels, maximizing grant reimbursements and indirect cost recovery, managing cash flow, and continuing to resolve FY26 audit and documentation issues.

The FY27 General Fund currently includes **$145,000 in budgeted transfers to other funds**. Given the FY26 results, the district should not assume those transfers will automatically be financially feasible. The ability to support Food Service and other funds will need to be evaluated against actual FY27 General Fund revenue, expenditures, and available cash.

Conclusion

The final FY26 financial results confirm that the district's financial challenges were **not simply a temporary cash flow problem**. General Fund expenditures exceeded revenues by approximately **$180,000**, and total expenditures exceeded the final amended expenditure budget by approximately **$465,000**. The resulting negative fund balance is a significant concern for the district, its independent auditors, and the Alaska Department of Education and Early Development (DEED).

The negative General Fund position also affects the district's ability to support other funds. The General Fund did not generate sufficient resources in FY26 to make the transfers anticipated in the amended budget, including transfers needed to support funds such as **Fund 255 – Food Service**, which incurred **$77,621.92 in expenditures against only $40,274.47 in revenue**. The district therefore enters FY27 not only with a negative General Fund balance, but also with other fund deficits and prior-year obligations that must ultimately be addressed.

These conditions continue to affect the district's cash position in FY27. The district has **no meaningful financial cushion** and must simultaneously fund current operations, address remaining prior-year liabilities and fund deficits, complete the FY26 audit, and respond to DEED's concerns regarding fund balance compliance. Early FY27 budget-to-actual results should therefore not be interpreted as evidence that these financial pressures have been resolved.

The State's projected **$282,433 in one-time FY27 funding (plus $104,588 in energy relief funds)** provides an important opportunity to create some financial margin, but **I do not recommend treating this revenue as available funding for**

new or expanded spending. This funding is one-time in nature and is outside the recurring Foundation Formula. Chatham's projected allocation is part of the statewide $115 million appropriation and remains subject to adjustment.

There are already several significant demands on any potential FY27 financial margin. **Current FY27 hiring is projected to exceed the personnel assumptions included in the adopted budget, teacher negotiations have not yet been finalized, and the adopted FY27 budget does not provide sufficient margin for capital improvements, major maintenance, and equipment or facility replacement needs that may arise during the year.** Committing this one-time revenue before these costs are better understood could further weaken the district's financial position.

For these reasons, **I recommend preserving any available margin created by the additional state funding rather than assigning it to new expenditures at this time**. It is also imperative that the district develop a comprehensive, districtwide **capital improvement and replacement list** so that known and anticipated needs can be identified, estimated, monitored, and prioritized. That information should inform future FY27 budget revisions and allow the Board to make deliberate decisions about the use of any available resources as the district's actual financial position becomes clearer.

Restoring financial stability will require **continued spending discipline, careful monitoring of actual staffing and benefit costs, timely and complete financial documentation from district staff, aggressive revenue and grant management, and difficult decisions when proposed expenditures are not supported by available resources**. Given the negative FY26 fund balance, rebuilding a positive fund balance and establishing adequate cash reserves should remain central financial priorities for the district.

My focus throughout FY27 will be to provide the Board with transparent information about these risks, monitor actual results against the adopted budget, and identify concerns early enough for corrective action to be taken. **The district's priority should be to stabilize its financial position before considering expansion of programs or other discretionary uses of one-time revenue.**