



Exhibit 2: Narrative and Plan Iowa City Community School District

The Iowa City Community School District has operated with a low percentage of unspent authorized budget for more than a decade, as a means of better meeting the district's strategic vision to meet the needs of all students. With this fiscal philosophy, even minor swings in enrollment or funding can trigger significant financial issues for the district.

The district's FY25 SBRC appearance was triggered not by a negative unspent balance, but rather by the SBRC's categorical-balance test, which compares total categorical restricted fund balances to the district's regular program balance. Based on the Committee's adopted methodology, the district's categorical balances exceeded the total unspent balance, resulting in a calculated unrestricted balance of approximately -\$4.6 million, not including approval of a modified supplemental amount for English Language excess costs, which makes the negative balance swing back into the positive.

In the December 2025 SBRC submission provided by the district's former CFO, it was stated that this situation reflected timing and categorical management decisions, rather than structural deficit spending or financial distress. It has been uncovered that there were indeed structural issues and the district was not in a healthy fiscal position. The previous CFO's statement to the SBRC that - "the district's financial condition remains strong. Key indicators, including solvency ratio and unspent balance as a percentage of expenditures, continue to trend upward," - was also wrong. While the district anticipates a positive unspent authorized budget for FY26, we also forecast a decline in the unspent authorized budget once the current fiscal year is closed, and likely a continuation of overspending in the regular program balance from FY25.

This sudden shift in the financial outlook over the past 3 months can be attributed to prior poor financial modelling that was never reconciled against ongoing expenditures. For example, the district's payroll increased an average of 9% month over month (FY26 to FY25); however, the financial model utilized continued to indicate expense growth of 2.75%. With 85% of general fund expenditures attributed to staff salary and benefits, the 9% growth seen in these categories equated to a much larger expenditure increase than the predicted 2.75%. This growth can be attributed to both added positions and collective bargaining agreements.

In January 2026, the district Controller brought to the attention of the Superintendent, Deputy Superintendent, and Chief Operating Officer a need for an interest rate on a \$10 million interfund loan taken from the health insurance fund to shore up a cash flow concern for the first September 2025 payroll. The funds were held in a CD and subsequently closed at maturity and transferred to the general fund bank account in August 2025. The former Chief Financial Officer indicated he had been in contact with the State and no approval from the Board of Education was needed. Upon learning the size of the loan - and that the loan was still outstanding - in January, the executive team contacted legal counsel who indicated an interfund loan resolution was needed and the interfund loan was retroactively approved on January 27th, 2026. Following a review of the cash

Matthew Degner – Superintendent of Schools



position of the district with the interfund loan, further examination revealed the fiscal position of the district. The district has begun working with PFM for cash flow modeling and will be issuing a Revenue Anticipation Warrant in May 2026 to continue to meet obligations.

As reconciliation of district finances accelerated and cash flows of other funds were investigated, it was found that the debt service portion of the October 2025 property tax payment was deposited into the Schoolhouse Fund and was not segregated for the December and June general obligation bond payments. As the district embarked on a new facilities master plan, these funds were spent in the startup costs for projects related to the new facilities plan, creating a shortfall for the June general obligation and SAVE bond payments. These circumstances will require the district to include the shortfall for these bond payments in the Revenue Anticipation Warrant to be issued in the spring. Projects have been paused or delayed at this discovery.

The district administration presented \$7.5 million in reductions in staffing and non-personnel costs for the FY27 school year to the board of education at the February 24th, 2026 meeting. The board debated these reductions further at the March 3rd and March 10th, 2026 meetings, and the board will vote on these reductions at the March 24th, 2026 meeting.

Reason the District Used Authority Related to Categorical Funding for Regular Program Costs in FY25

As submitted in December 2025, the primary driver of categorical balance accumulation was reportedly related to strategic planning for program expansion and transitional costs in specific categorical areas:

Expansion of Full-Day Preschool Programming

From the December 2025 submission, ICCSD dramatically expanded its full-day preschool offerings in FY26. The district now offers pre-school opportunities at every elementary school within the district. As part of this initiative, the district intentionally built and maintained a larger categorical preschool balance to support one-time startup costs and to account for efficiencies that would not be realized during the program's initial year of expansion. These funds ensure operational continuity and maintain flexibility to support staffing, materials, and student access while the program scales to its new structure.

Homeschool Assistance Program (HSAP) Flexibility Transfer

From the December 2025 submission, during the COVID-19 pandemic, enrollment in the district's HSAP grew substantially, resulting in an unusually high categorical balance. In FY25, the district transferred approximately \$1 million from this fund to the flexibility account, but left substantial additional reserves as part of a conservative approach to accommodate post-COVID enrollment fluctuations. As HSAP enrollment continues to stabilize, the district plans to transfer a significant portion of the remaining balance in FY26, converting restricted funds to general flexibility to better support districtwide instructional and operational needs.

Matthew Degner – Superintendent of Schools



Teacher Leadership and Compensation (TLC) and Professional Development (PD)

From the December 2025 submission, the district also planned to continue its strategic use of allowable flexibility for TLC and PD funds to support Teacher Salary Supplement (TSS) purposes, in accordance with legislative authority. These uses occur only after programmatic needs within TLC and PD are met, ensuring the integrity of those categorical purposes.

Additional Staffing Expands Regular Program District Cost

In hindsight, the submission in December 2025 should not only have answered the question of the plan for categoricals, but also the reason the regular program district cost had grown. From FY25 to FY26, the district added 63 paraeducators, 31 support staff, and 30 teachers. The increase in staffing from FY24 to FY25 was likely not as large, however, the salary and benefit cost of 85% of general fund expenditures is simply too high.

Plan to Correct the Imbalance

The district's plan to correct the current categorical imbalance centers on the following strategies:

Targeted Transfers to Flexibility Accounts: Continue annual evaluation of categorical fund balances to identify eligible transfers to the flexibility account, prioritizing those where long-term carryovers are no longer necessary.

Preschool Program Stabilization: As the full-day preschool program completes its expansion cycle, the categorical balance in this area will decrease naturally as one-time startup costs are realized and efficiencies are established.

Active Categorical Monitoring: Maintain monthly internal monitoring of categorical balances as part of the district's regular budget review process to prevent future carryovers from growing disproportionately relative to the general fund. This was not implemented following the December 2025 SBRC submission, but will be incorporated into the monthly financial reports presented to the Board of Education.

Ongoing Board Oversight: The Board's Operations Committee and Financial Oversight Committee will continue to review categorical and unspent balance data as standing agenda items to ensure transparency and accountability. The Finance Oversight Committee is being reconstituted with a new charter, will include more community members and meet more frequently to provide oversight and feedback.

Reductions in Expenditures: The district administration has presented \$5.9 million in staffing reductions and \$1.6 million in non-personnel savings for FY27. The district will utilize the next year to examine long term financial stability measures, continue to improve alignment of expenditures with resources, and consider additional reductions for FY28.

Matthew Degner – Superintendent of Schools



Plan for Sustainability

The district's sustainability strategy is built on creating a balanced and predictable fiscal structure:

Search for Qualified Chief Financial Officer: The district is actively engaged in a search for a qualified Chief Financial Officer, with required qualifications of an individual including holding an Iowa School Business Official endorsement and Certified Public Accountant license. The district anticipates the chosen candidate starting no later than July 1st, 2026. In the interim, the district has contracted with FGMK to hire Kim Michael-Lee as an interim CFO to lead the effort in bringing district financials up to date and completing FY24 and FY25 audits.

Enrollment and Revenue Management: The district engages professional demographers on a biennial basis to project enrollment trends and align staffing and resource allocation to anticipated student counts. This proactive approach mitigates the impact of enrollment instability on the district's general fund. The district has also partnered with PFM to provide cash flow modelling for the next 5 years to help develop fiscal strategies.

Growth of Unrestricted Unspent Balance: The district's unspent balance improved from a deficit of -\$2.5 million in FY23 to \$5.1 million for FY25 (prior to any adjustment for overstatement of miscellaneous income). While the district anticipates a modest decline in the unspent balance in FY26, staffing and expenditure reductions for FY27 will keep the unrestricted unspent balance positive.

Long-Range Forecasting: ICCSD utilizes the ISFIS Comprehensive Financial Projection Model (CFPM) to develop multi-year forecasts. District leadership will develop policies and procedures to ensure financial models are reconciled against ongoing expenses and include this information with monthly board financial reports.

Other Contextual Factors

From the December 2025 submission, the categorical-balance trigger necessitated the FY25 appearance; the district's financial condition was believed to be strong. Key indicators, including solvency ratio and unspent balance as a percentage of expenditures, were shown to trend upward, but the district is now aware that these figures were not accurate. The district's use of categorical balances was presented as reflecting intentional planning for programmatic growth and strategic flexibility rather than overspending or deficit operations. We now know the district was in fact overspending. However, measures have been put in place to minimize this overspend as we progress through FY26.

Matthew Degner – Superintendent of Schools



Five Year Financial Projections Assumptions

Assumptions for the five year financial projections included 2.0% SSA over the 5 year period, reduction in certified enrollment of 36 students each year, and salary and benefit growth of 2.72% in FY27, 3.5% in FY28, and 3% each year for FY29-FY31. The model also includes \$7.5 million in budget cuts in FY27, \$7.8 million in budget cuts in FY28, and \$2.6 million in budget cuts each year for FY29-FY31 based on assumptions of decreases in enrollment of approximately 36 students per year and flat SSA rates of 2%.

Matthew Degner – Superintendent of Schools

It is the policy of the Iowa City Community School District not to discriminate on the basis of race, color, national origin, sex, disability, religion, creed, age, marital status, sexual orientation, gender identity and socioeconomic status in its educational programs, activities, or employment practices. There is a grievance procedure for processing complaints of discrimination. If you have questions or a grievance related to this policy, please contact Eric Howard, Director of Equity & Employee Relations, 1725 N. Dodge St., Iowa City, IA 52245, (319) 688-1000, howard.eric@iowacityschools.org