TO: School Board
Dr. Kim Hiel, Superintendent
FROM: John Morstad, Executive Director of Finance and Operations
Kelly Benusa, Director of Business Services
SUBJECT: Preliminary Fiscal Year 2026 Year-End Financial Reports
DATE: September 29, 2026

Each year, the district completes an independent audit and submits an Annual Comprehensive Financial Report by December 31. Osseo Area Schools begins this process in August, with audit results presented to the school board for approval in November. This report provides a preliminary view of fiscal year results to support board oversight and guide budget planning. Preliminary FY 2026 results were favorable to budget, with expenditures under budget and fund balances remaining stable. This memo, along with the four attached exhibits, summarizes those preliminary results.

Exhibit I summarizes all revenue and expenditure amounts in the budgeted funds. The exhibit contains color coding that matches the color coding in this memo for each fund.

General Fund

The General Fund includes the primary operations of the district in providing educational services to students from pre-kindergarten through grade 12, including transportation activities. **Exhibit II** summarizes the combined General Fund revenue and expenditure budget variance. The combined revenue/expenditure variance was 1.29% of total budgeted revenue and expenditures. This was within the budget planning benchmark of 2% for budgeted amounts.

General Fund Revenue

Revenues were over budget by $2,636,639, or 0.81% of the revised budget, as shown in **Exhibit II**. The variance was primarily driven by the following factors:

- Special education revenue exceeded budget by $4.1 million due to higher-than-anticipated formula-based revenue, federal tuition adjustment of $2 million, and prior year adjustment for federal tuition billing.
- General education aid was $2.3 million below budget due to 183 fewer actual adjusted pupil units and 9 fewer extended adjusted pupil units.
- Investment earnings exceeded budget by $306,000 due to improved interest rates.
- Tax collections exceeded budget by $281,000.
- Third-party medical assistance billing exceeded budget by $176,000.

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General Fund Expenditures

Expenditures were under budget by $6,030,414, or 1.75% of the General Fund expenditure budget, as shown in **Exhibit I**.

- Salaries were under budget by $3.4 million, or 1.63%, primarily due to open positions, unused budget capacity, and unspent READ Act training funds, partially offset by staff moved from federal to state special education to utilize the federal tuition adjustment to maximize revenue.
    - Open positions and unused budget capacity were $3.5 million under budget.
    - READ Act training funds were $164,000 under budget.
    - Federal special education staff moved to state special education were $675,000 over budget.
- Benefits were under budget by $732,000, or 0.93%, primarily due to lower-than-projected employee health insurance and HSA contributions, partially offset by TRA costs exceeding budget capacity.
    - Employee health insurance and HSA contributions were $1,039,000 under budget.
    - TRA was $269,000 over budget.
- Purchased services were under budget by $374,000, or 0.87%, primarily due to savings in transportation contracted services and snow removal.
    - Transportation contracted services and snow removal were $1 million and $358,000 under budget, respectively, due to service optimization, contract management, and ongoing expenditure controls.
    - Other purchased services were $1.2 million over budget, primarily due to contracted services for unfilled positions, tuition paid to other districts, and PSEO.
    - Repairs were less than anticipated by $103,000.
- Supplies, capital, and other expenditures were under budget by $1.5 million, or 11.79%, primarily due to $1.3 million in unspent curriculum capacity and additional cost-containment efforts by management and staff.

As in the past, we continue to record special funded projects (state and federal) and gifts, fund raising, clearing, and resale activity accounts separately. This is done for each account to ensure that expenditures occur only to the extent of revenue available.

- Special funded projects, including state and federal programs, had a total budget of $45,078,560, a 0.69% decrease from the prior year. Actual expenditures were under budget by $3.9 million and will be carried over into the next fiscal year, since many projects cross fiscal years. Certain grants have a one-year window to spend allowable funds, so grants with expiration dates are monitored carefully to ensure spending occurs within required parameters.

- Gifts, fund raising, clearing, and resale expenditures were under budget by $147,714. This favorable expenditure variance is combined with revenues that were less than budget by $64,624, along with prior-year carryover.
- Student activities expenditures were over budget by $150,828, partially offset by revenues that were $164,023 over budget.

General Fund Balance

Exhibit III shows a General Fund balance decrease of $5,949,497, including special funded projects, gift accounts, and student activities compared with an anticipated decrease of $16,791,622. Assigned and unassigned fund balance decreased by $8,612,952, from $119,524,952 on June 30, 2025, to $110,912,000 on June 30, 2026.

Year-end fund balance does not represent actual cash on hand. On June 30, 2026, cash and investments totaled $146,495,516, an increase of $2,198,461 from the prior year. The difference is primarily due to state aid payment metering and the tax shift, which are used to help balance Minnesota's state budget.

Food and Nutrition Services Fund

Exhibit I shows the Food and Nutrition Services Fund had a planned surplus of $428,026. In **Exhibit III**, actual revenues exceeded expenditures by $927,086. Operating revenue was $343,227, or 1.78%, below budget due to decreased participation in lunch sales and state revenue. Actual expenditures were $842,288, or 4.47%, under budget, primarily due to lower salary and food costs than anticipated.

Fund balance increased to $7,374,574 on June 30, 2026. This balance represents 40.7% of annualized expenditures and is more than adequate. The district plans to continue using Food and Nutrition Services resources for capital improvements that increase operational efficiency and effectiveness.

Community Service Fund

Exhibit I shows the Community Service Fund had a planned deficit of $1,835,427. In **Exhibit III**, total fund balance decreased to $2,239,100 on June 30, 2026, representing 10.09% of annualized expenditures. Under state law, all revenue and fund balance in this fund are reserved for community education programs. Operating revenue was $133,118, or 0.77%, below budget, while operating expenditures were $22,790, or 0.12%, under budget.

Capital and Land Proceeds Fund

The Capital and Land Proceeds Fund ended the year with a $475,082 decrease to fund balance, compared with an anticipated deficit of $16,454.

In **Exhibit III**, the full Capital and Land Proceeds Fund ending fund balance of $7,408,710 on June 30, 2026, is restricted by state statute for facilities, equipment, textbooks, and long-term facilities maintenance.

Debt Service Fund

The Debt Service Fund balance increased to $6,525,500 in FY 2026. In **Exhibit I**, actual revenues exceeded budget by $42.6 million, or 122.52%, primarily due to proceeds from the sale of G.O. Refunding Bonds 2026A of $42.8 million, property taxes and higher investment earnings from improved rates of $195,000, which were partially offset by tax collections being less than anticipated by $308,000. Actual expenditures were $42.8 million, or 126.95%, over budget, primarily due to the refunding of the G.O. Facilities Maintenance Bonds 2016A. Debt Service Fund revenues and expenditures represent the amounts necessary to meet payment schedules associated with the district's long-term debt.

Summary

Overall, preliminary FY2026 results were favorable to budget, supported by disciplined spending, staff and administrative cost-containment efforts, and stronger-than-anticipated revenue in several areas. Most areas performed close to budget, and the assigned and unassigned fund balance remains an important financial safeguard that preserves the district's ability to address future General Fund budget reductions while maintaining essential programs and services.

We will continue to evaluate FY 2026 financial data in relation to the FY 2027 budgets and use this information, along with other relevant data, to support the revised FY 2027 budget and updated FY 2028 projections before establishing budget parameters.

We appreciate the Business Services staff for their work, dedication, and continued support of the district's financial stewardship throughout the year.