CP ASSURANCE

# Independent School District No. 742
# St. Cloud, Minnesota

## Communications Letter

## June 30, 2026

**Independent School District No. 742**
**Table of Contents**


| | |
|---|---|
| Report on Matters Identified as a Result of the Audit of the Basic Financial Statements | 1 |
| Significant Deficiency | 3 |
| Required Communication | 4 |
| Financial Analysis | 9 |
| Legislative Summary | 20 |
| Emerging Issues | 22 |

CP ASSURANCE

**Report on Matters Identified as a Result of the Audit of the Basic Financial Statements**

To the School Board and Management
Independent School District No. 742
St. Cloud, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 742, St. Cloud, Minnesota, as of and for the year ended June 30, 2026, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.

- *Probable*. The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 10, 2026, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the School Board, management and others within the District, and state oversight agencies the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

CP Assurance, Ltd.

St. Cloud, Minnesota
November 10, 2026

**Independent School District No. 742**
**Significant Deficiency**

**Lack of Segregation of Accounting Duties**
The District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the basic financial statements. Examples of the lack of segregation of accounting duties include, but are not limited to the following:

- The Executive Director of Finance and Business Services has full access to the general ledger.
- Secretaries at the elementary schools and community education office receives cash and prepare the deposit.
- The Accountant receives cash, posts amounts into the finance system, prepares the deposit and makes the deposit.
- The Payroll Secretary enters timecard information into the system and processes payroll. The Accountant reviews the payroll report and certain paper timecards. The Payroll Coordinator also reviews random selections of paper timecards to ensure information was entered correctly into the District's payroll system.

Management and the School Board are aware of this condition and have taken certain steps to compensate for the lack of segregation, but due to the number of staff needed to properly segregate all of the accounting duties, the costs of obtaining desirable segregation of accounting duties can often exceed benefits that could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. Management and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

**Independent School District No. 742**
**Required Communication**

We have audited the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended June 30, 2026. Professional standards require that we advise you of the following matters related to our audit.

**Our Responsibility in Relation to the Basic Financial Statement Audit**
As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Our Responsibility in Relation to *Government Auditing Standards***
As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Our Responsibility in Relation to *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance)**

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *Office of Management and Budget* (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm and our network firms have complied with all relevant ethical requirements regarding independence.

**Significant Risks**

We addressed the following significant risks of material misstatement identified in our planning procedures:

- Improper Revenue Recognition – Revenue recognition is considered a risk on substantially all engagements as it is generally the largest line item impacting a District's operating results.

- Misappropriation of Assets and Management Override of Controls through Journal Entries – Management override of controls is required to be considered a risk in each engagement. If duties cannot be appropriately segregated within the accounting and finance department, there is a risk of improper or unauthorized journal entries being made.

- State Aid Valuation – Revenue and receivable amounts related to General Education and Special Education Aid are generally material to the financial statements and involve significant estimates.

- Capital Assets Valuation – Capital assets and depreciation are material to the financial statements and involve significant estimates.

- Other Post Employment Benefits (OPEB) Valuation – Total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB are generally material to the financial statements and involve significant estimates.

**Significant Risks (Continued)**

- Pension Valuation – Net pension liability, deferred outflows of resources related to pensions and deferred inflows of resources related to pensions are generally material to the financial statements and involve significant estimates.

- Compensated Absences Valuation – The compensated absences liability is generally material to the financial statements and involves significant estimates.

**Qualitative Aspects of the District's Significant Accounting Practices**

*Significant Accounting Policies*
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to the basic financial statements. There has been no initial selections of accounting policies and no changes to significant accounting policies or their application during 2026. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

*Significant Accounting Estimates and Related Disclosures*
Accounting estimates and related disclosures are an integral part of the basic financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive estimates affecting the basic financial statements relate to:

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this aid is an estimate. Special Education Aid is also dependent upon ADM value; however, in addition to those, this aid is dependent on the availability of funding at the state and complex formulas that are finalized after reporting deadlines.

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the District for post-employment benefits.

Net Pension Liability, Deferred Outflows of Resources Relating to Pension Activity and Deferred Inflows of Resources Relating to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

Compensated Absences - This balance is based on estimates based on the likelihood that leave will be used for time off while actively employed and the likelihood that leave will be paid out as a severance benefit upon separation of employment.

**Qualitative Aspects of the District's Significant Accounting Practices (Continued)**

*Significant Accounting Estimates and Related Disclosures (Continued)*
We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

*Financial Statement Disclosures*
Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent and clear.

**Significant Difficulties Encountered during the Audit**
We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**Uncorrected and Corrected Misstatements**
For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures and the basic financial statements taken as a whole and each applicable opinion unit.

The following bullet points summarize the uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

- State revenues and related receivable were understated in the General Fund.
- Prepaid items were overstated and expenditures were understated in the General Fund.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the basic financial statements taken as a whole.

**Disagreements with Management**
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

**Representations Requested from Management**
We have requested certain written representations from management, which are included in the management representation letter.

**Independent School District No. 742**
**Required Communication**

**Management's Consultations with Other Accountants**
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**
In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the District and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditor.

**Other Information Included in Annual Reports**
Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the District's annual reports, does not extend beyond the information identified in the audit report and we are not required to perform any procedures to corroborate such other information.

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

**Independent School District No. 742**
**Financial Analysis**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this letter. The last section of this report, which contains a summary of legislative changes affecting school districts, gives an indication of how complicated the funding system is. The following section provides some state-wide funding and financial trend information.

**Average Daily Membership and Pupil Units**
The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated by using a legislatively determined weighting system applied to ADM. Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

| | General Education Aid Formula Allowance | |
|---|---|---|
| Year | Amount | Percent Increase |
| 2017 | $ 6,067 | 2.0% |
| 2018 | 6,188 | 2.0% |
| 2019 | 6,312 | 2.0% |
| 2020 | 6,438 | 2.0% |
| 2021 | 6,567 | 2.0% |
| 2022 | 6,728 | 2.5% |
| 2023 | 6,863 | 2.0% |
| 2024 | 7,138 | 4.0% |
| 2025 | 7,281 | 2.0% |
| 2026 | 7,481 | 2.7% |
| 2027 | 7,683 | 2.7% |

**Average Daily Membership and Pupil Units (Continued)**
The following summarizes resident ADM and ADM served of the District over the past five years ended June 30:

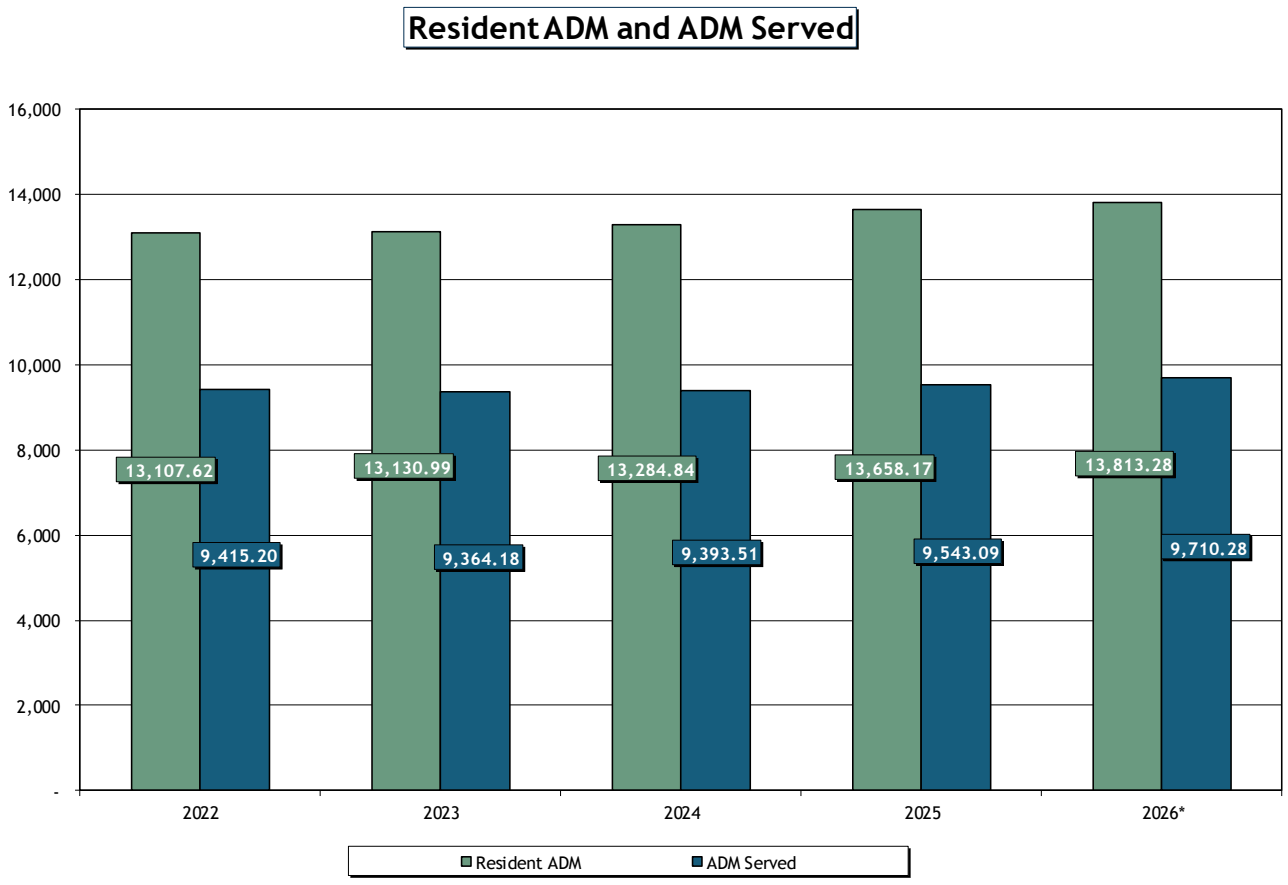
| Resident ADM | 2022 | 2023 | 2024 | 2025 | 2026* |
|---|---|---|---|---|---|
| Kindergarten and other | 1,354.81 | 1,349.95 | 1,336.15 | 1,313.65 | 1,377.02 |
| Elementary | 5,785.84 | 5,907.69 | 6,040.95 | 6,369.23 | 6,443.71 |
| Secondary | 5,966.97 | 5,873.35 | 5,907.74 | 5,975.29 | 5,992.55 |
| **Total Resident ADM** | **13,107.62** | **13,130.99** | **13,284.84** | **13,658.17** | **13,813.28** |

| ADM Served | 2022 | 2023 | 2024 | 2025 | 2026* |
|---|---|---|---|---|---|
| Residents served | 8,880.27 | 8,863.62 | 8,994.84 | 9,159.31 | 9,303.84 |
| Extended time | 177.73 | 176.37 | 124.52 | 92.46 | 86.47 |
| Nonresident options | 264.72 | 244.70 | 188.30 | 155.07 | 167.72 |
| Ineligible for funding | 20.43 | 17.06 | 10.23 | 50.45 | 57.73 |
| Tuition | | | | | |
| Residents | 35.12 | 27.68 | 34.31 | 46.61 | 57.95 |
| Nonresidents | 33.00 | 31.25 | 38.97 | 38.05 | 36.26 |
| Shared time | 3.93 | 3.50 | 2.34 | 1.14 | 0.31 |
| **ADM Served** | **9,415.20** | **9,364.18** | **9,393.51** | **9,543.09** | **9,710.28** |

* Estimate

ADM served takes into consideration open enrollment and other student agreements that resident ADM does not. ADM served also considers both tuition residents and nonresidents as the District incurs costs for both.

## Average Daily Membership and Pupil Units (Continued)




* Estimate

As the chart on the previous page and the graph above indicate, resident ADM increased by an estimated 155 ADM from 2025 to 2026. Over the same period, ADM served increased approximately 167 ADM.

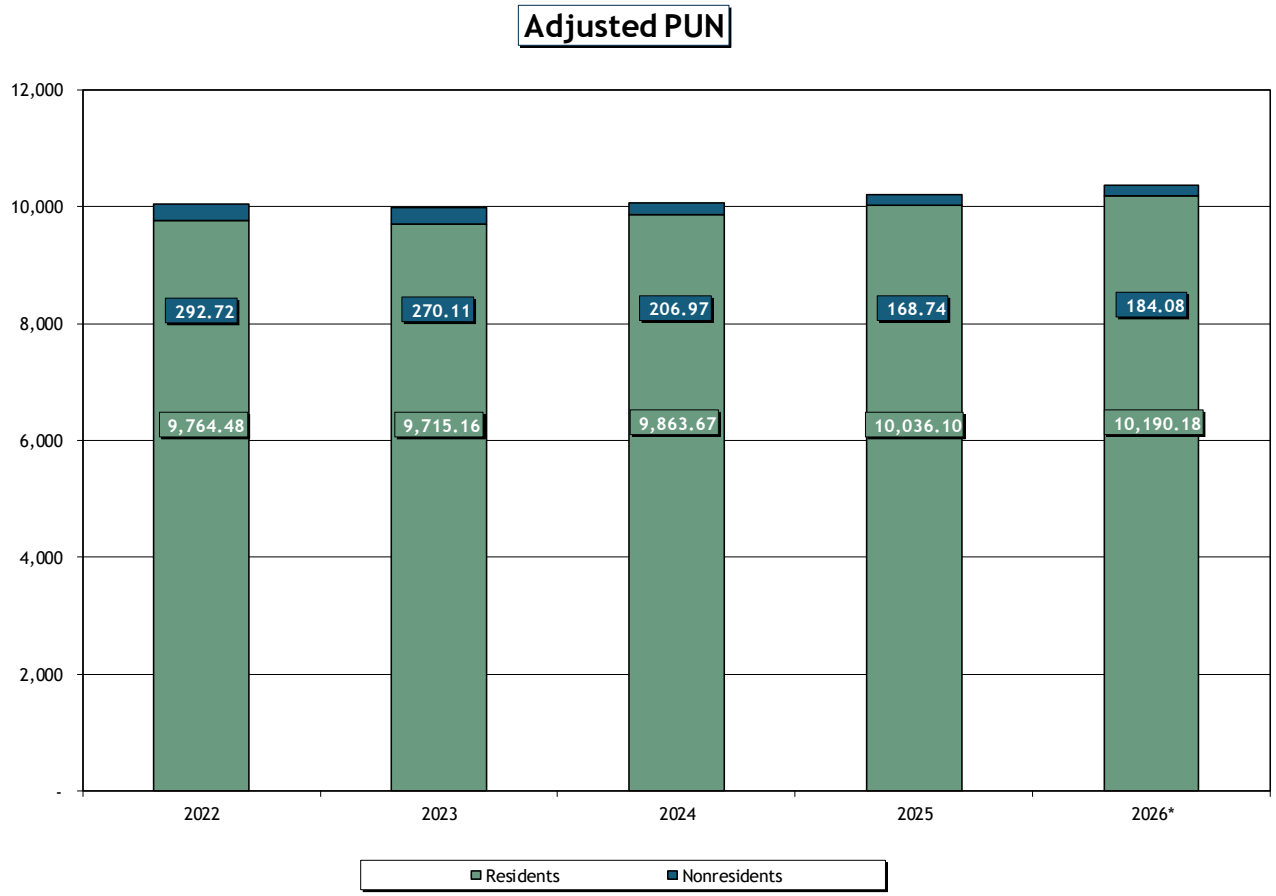
To calculate the majority of the District's education aids, the ADM amounts are weighted based on the student's grade level. The following table displays the weighting for the past five years.

| | | | Disabled | | |
|---|---|---|---|---|---|
| | Prekindergarten | Kindergarten | Kindergarten | Elementary | Secondary |
| 2022-2026 | 1.000 | 1.000 | 1.000 | 1.000 | 1.200 |

## Average Daily Membership and Pupil Units (Continued)

| Adjusted PUN | 2022 | 2023 | 2024 | 2025 | 2026* |
|---|---|---|---|---|---|
| Residents | 14,300.59 | 14,305.18 | 14,465.94 | 14,853.21 | 15,011.80 |
| Resident PUN going out | (4,536.11) | (4,590.02) | (4,602.27) | (4,817.11) | (4,821.62) |
| Nonresident PUN coming in | 292.72 | 270.11 | 206.97 | 168.74 | 184.08 |
| **Total Adjusted PUN** | **10,057.20** | **9,985.27** | **10,070.64** | **10,204.84** | **10,374.26** |

| Breakdown of Adjusted PUN | 2022 | 2023 | 2024 | 2025 | 2026* |
|---|---|---|---|---|---|
| Regular | 9,860.29 | 9,784.36 | 9,932.44 | 10,104.29 | 10,279.59 |
| Extended time | 196.91 | 200.91 | 138.20 | 100.55 | 94.67 |
| **Total Adjusted PUN** | **10,057.20** | **9,985.27** | **10,070.64** | **10,204.84** | **10,374.26** |



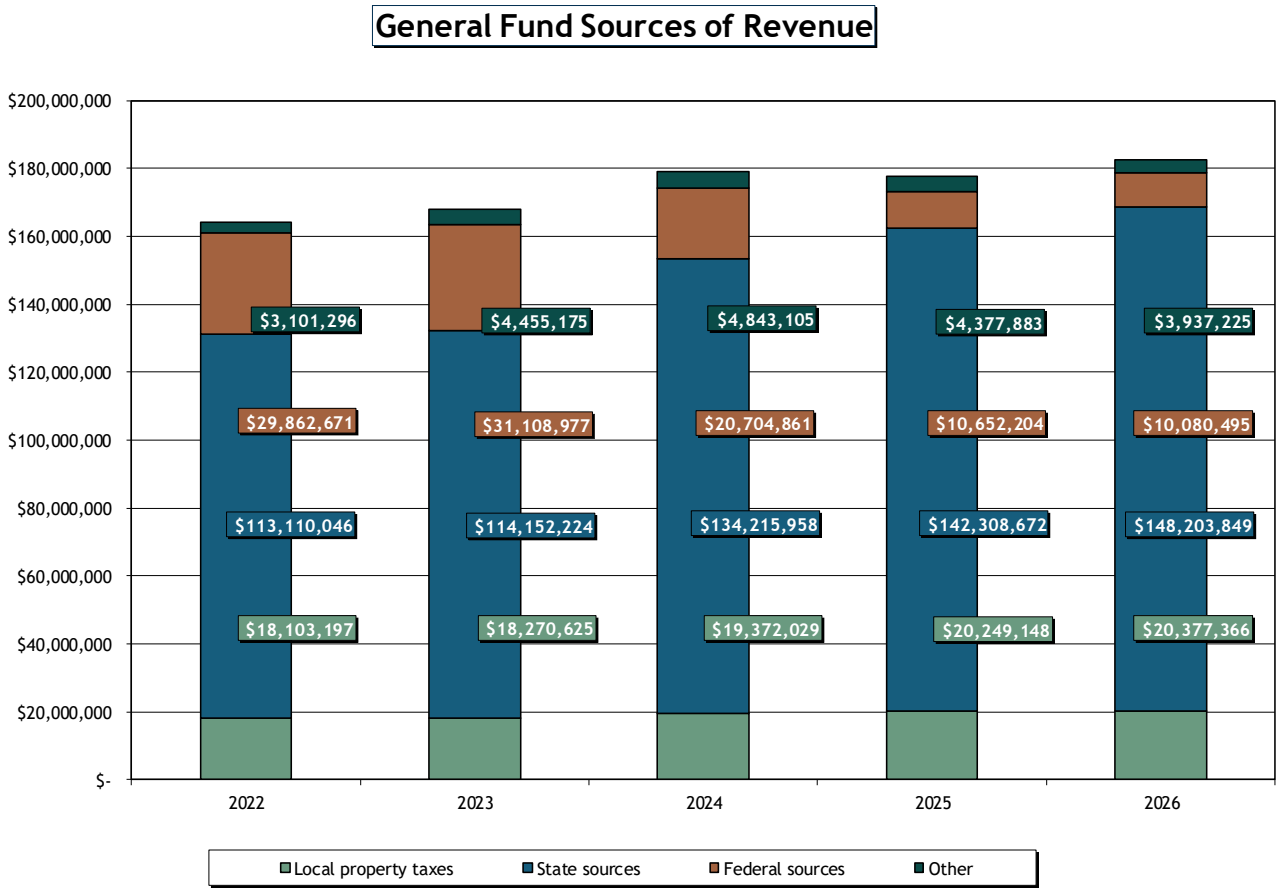

* Estimate

For 2026, Adjusted PUN increased approximately 169 from 2025 to 2026.

## General Fund Sources of Revenue

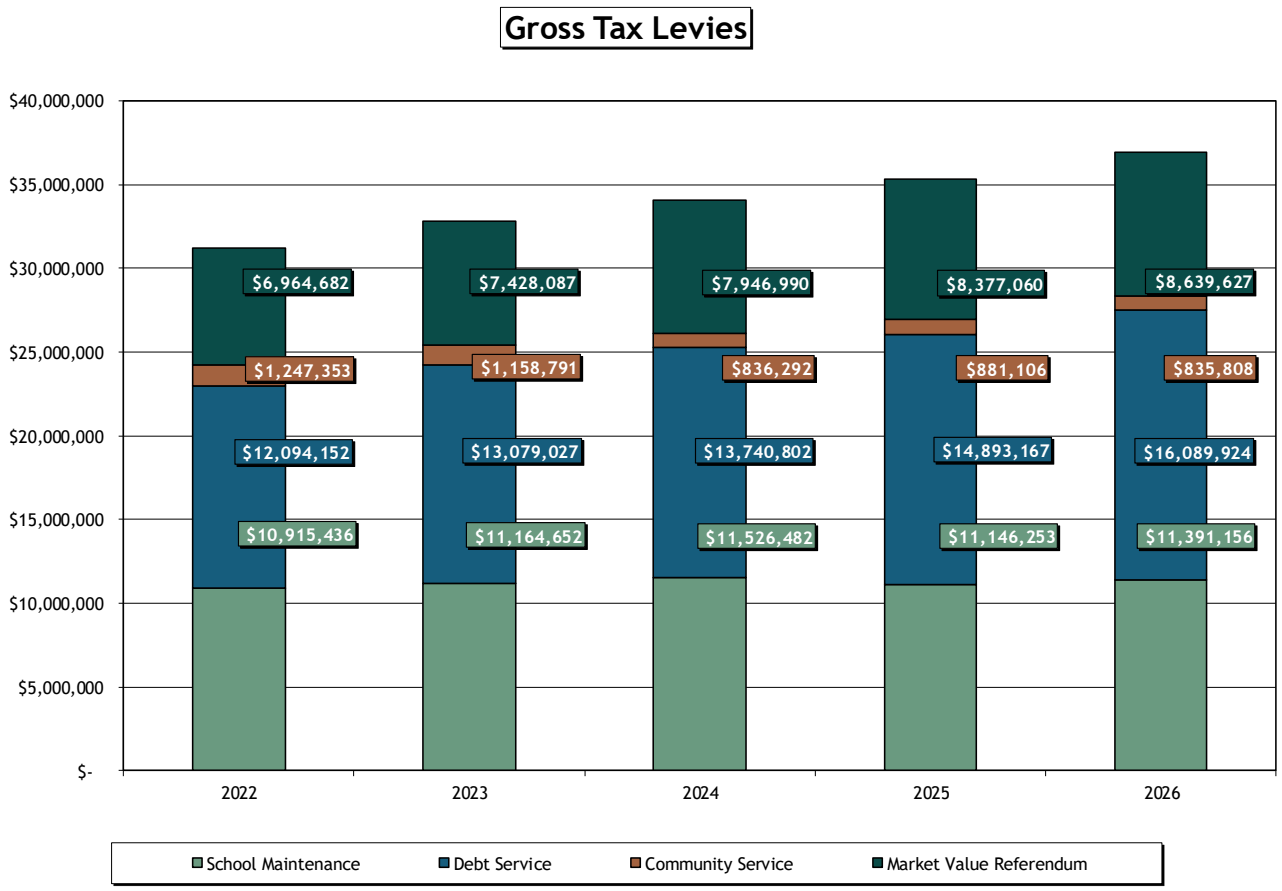
General Fund sources of revenue are summarized as follows:

| | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Local property taxes | $ 18,103,197 | $ 18,270,625 | $ 19,372,029 | $ 20,249,148 | $ 20,377,366 |
| State sources | 113,110,046 | 114,152,224 | 134,215,958 | 142,308,672 | 148,203,849 |
| Federal sources | 29,862,671 | 31,108,977 | 20,704,861 | 10,652,204 | 10,080,495 |
| Other | 3,101,296 | 4,455,175 | 4,843,105 | 4,377,883 | 3,937,225 |
| **Total Revenues** | **$ 164,177,210** | **$ 167,987,001** | **$ 179,135,953** | **$ 177,587,907** | **$ 182,598,935** |




As indicated by the chart and graph above, total General Fund revenues increased $5,011,028, or 2.8%, from 2025 to 2026. State revenues increased $5,895,177 due to increased enrollment and increased special education aid entitlement.

## Gross Tax Levies



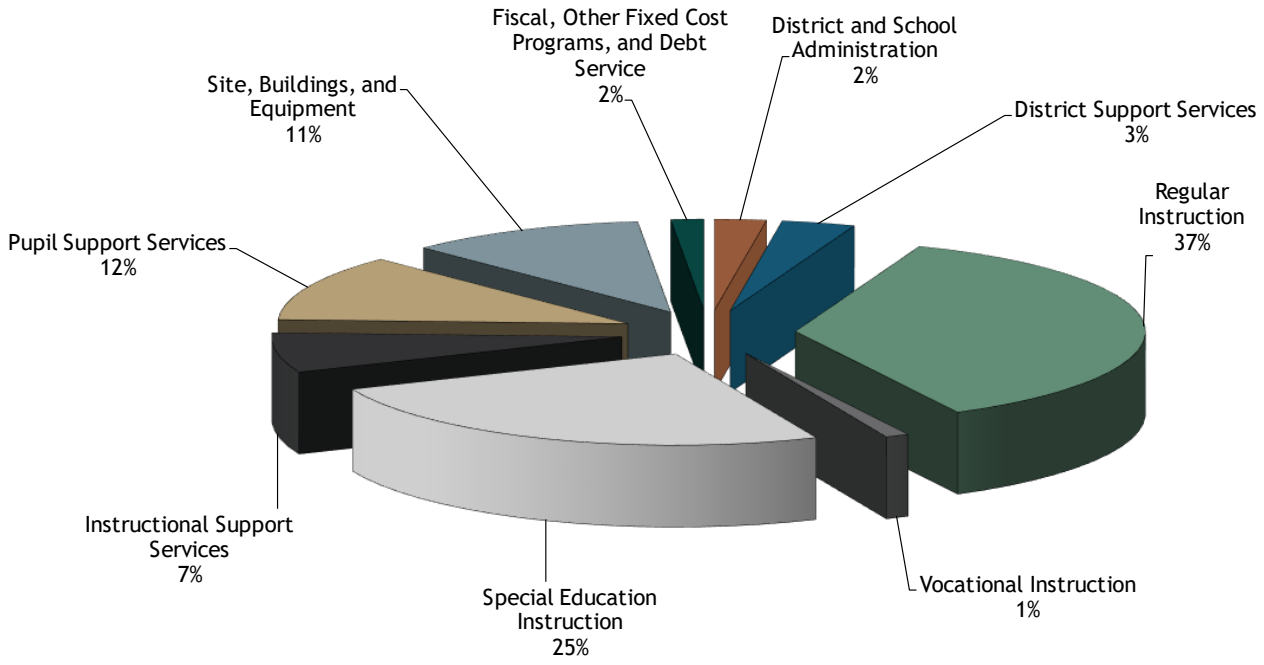

Pay 2026 gross tax levies increased $1,658,929 in total from the Pay 2025 levies. The most significant increase was related to the debt service levy for fiscal year 2027 long-term debt payments.

**Independent School District No. 742**
**Financial Analysis**

## General Fund Operations

The following chart outlines the General Fund expenditures as a percentage by program type for 2026. Regular instruction continues to make up the largest portion of District expenditures at 37% in 2026. The instruction categories made up 63% of expenditures in 2026 compared to 62% of expenditures in 2025.

**General Fund Expenditures**
**$183,692,139**



## Expenditures Per Student

Expenditures per student (ADM) served for all programs are summarized as follows:

| | 2022 | 2023 | 2024 | 2025 | 2026* |
|---|---|---|---|---|---|
| General Fund | $ 17,396 | $ 17,977 | $ 18,474 | $ 19,038 | $ 18,918 |
| State-wide average by size** | 15,351 | 16,136 | 17,242 | 18,040 | N/A |

The following is the expenditures per student (ADM) served by program:

| | District 2025 | State Average by Size 2025** | District 2026* | State Average 2026 |
|---|---|---|---|---|
| District and School Administration | $ 1,275 | $ 1,403 | $ 1,092 | N/A |
| Regular instruction | 7,073 | 7,423 | 6,919 | N/A |
| Vocational instruction | 206 | 246 | 207 | N/A |
| Special education instruction | 4,516 | 3,781 | 4,769 | N/A |
| Instructional support services | 1,144 | 1,083 | 1,333 | N/A |
| Pupil support services | 2,233 | 1,943 | 2,235 | N/A |
| Site, buildings, equipment and other | 2,591 | 2,161 | 2,363 | N/A |
| **Total Expenditures per Student** | **$ 19,038** | **$ 18,040** | **$ 18,918** | **N/A** |

* Estimate based on most current ADM numbers
** Includes all schools with enrollment of 4,000 students or more for 2022-2025

Amounts listed for 2022-2025 are taken from the Minnesota Department of Education (MDE) publication, *School District Profiles*. State averages for 2026 are not currently available.

Expenditures per student served for the General Fund remained stable from 2025 to 2026, as expenditures and ADM served increased at similar rates. Expenditures increased in 2026 primarily due to increases in salaries and benefits related to contract settlements, step and lane movement and the addition of special education licensed and non-licensed positions. Partially offsetting salary and benefits increases, the amount of Chromebooks acquired, which were purchased via a financed purchase agreement, decreased significantly from 2025 to 2026 and the District incurred higher construction related expenditures in the General Fund in fiscal year 2025.

## General Fund Operations

The following table presents five years of comparative operating results for the District's General Fund:

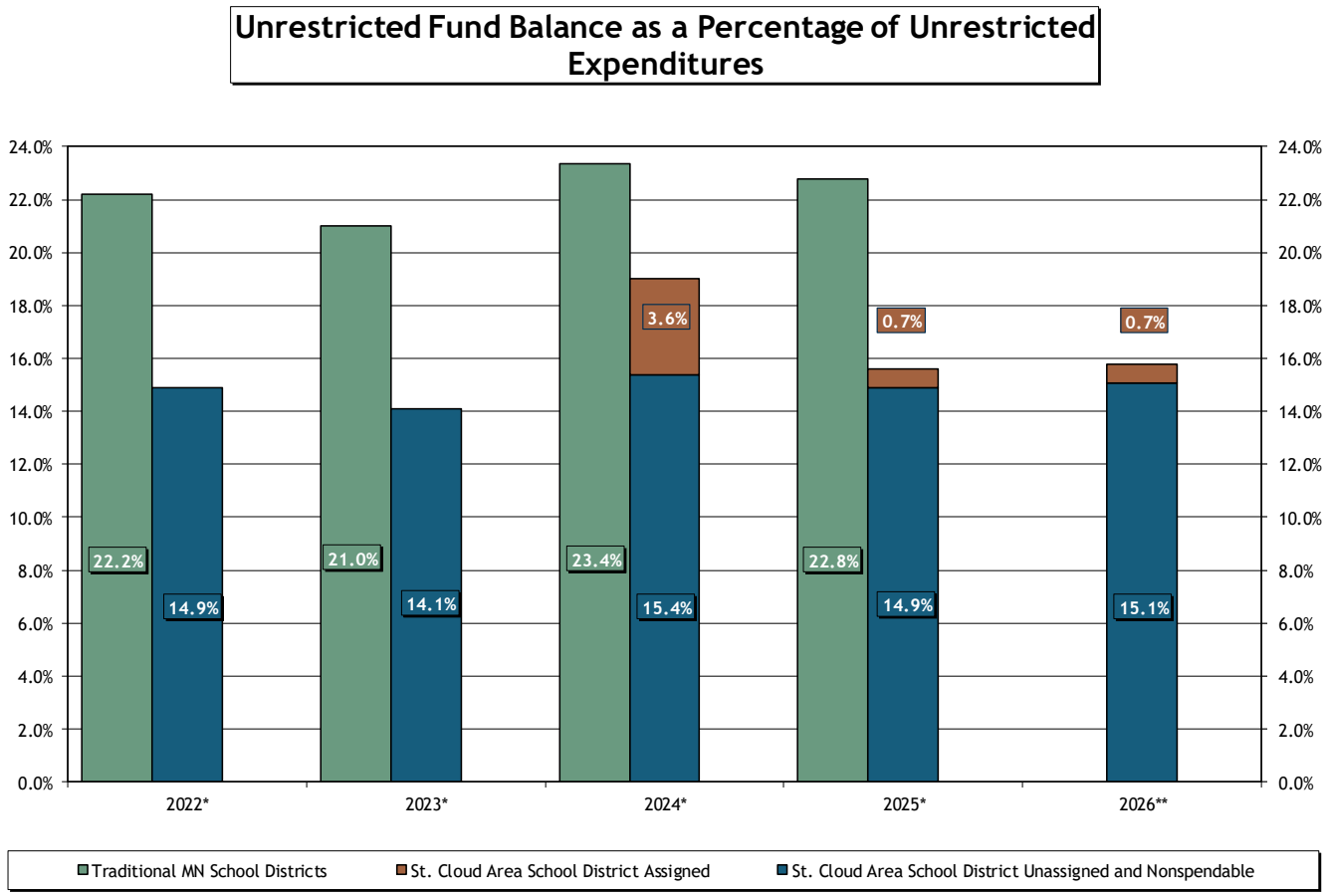
| For the Year Ended June 30, | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Revenues | $ 164,177,210 | $ 167,987,001 | $ 179,135,953 | $ 177,587,907 | $ 182,598,935 |
| Expenditures | 163,990,127 | 168,528,944 | 174,161,497 | 182,518,754 | 183,692,139 |
| Excess of revenues over (under) expenditures | 187,083 | (541,943) | 4,974,456 | (4,930,847) | (1,093,204) |
| Debt issuance | 7,075,000 | - | - | - | - |
| Debt premium | 519,855 | - | - | - | - |
| Debt refunding payment | (7,455,000) | - | - | - | - |
| Insurance recoveries | 3,080 | - | - | 22,148 | 1,646,448 |
| Lease, subscription, finance purchase agreement proceeds | - | - | 261,927 | 1,268,753 | 239,445 |
| Fund balance, July 1 | 23,800,343 | 24,130,361 | 23,588,418 | 28,824,801 | 25,184,855 |
| **Fund balance, June 30** | **$ 24,130,361** | **$ 23,588,418** | **$ 28,824,801** | **$ 25,184,855** | **$ 25,977,544** |
| **Components** | | | | | |
| Nonspendable | $ 1,229,717 | $ 558,511 | $ 575,010 | $ 512,900 | $ 453,534 |
| Restricted for | | | | | |
| Operating capital | 2,632,642 | 2,570,040 | 2,181,735 | 2,048,165 | 2,299,153 |
| Area Learning Center | 779,233 | 823,514 | 823,514 | 184,520 | 282,280 |
| Long term facilities maintenance* | (69,781) | (46,326) | (18,027) | (2,816) | 217,748 |
| Gifted and talented | 81,573 | 78,450 | 87,878 | 88,544 | 83,515 |
| Basic skills extended time | 1,407,220 | 1,407,220 | 1,407,220 | - | - |
| Basic skills | - | - | - | 1,699,204 | 1,445,149 |
| Teacher comp for Read Act training | - | - | - | 311,024 | 131,155 |
| Student support personnel aid | - | - | - | - | 27,569 |
| Scholarships | 136,161 | 144,848 | 162,863 | 159,957 | 169,696 |
| Student Activities | 334,781 | 357,577 | 338,133 | 381,013 | 400,696 |
| Assigned for | | | | | |
| Future projects | - | - | 4,540,492 | 937,758 | 954,440 |
| Unassigned | 17,598,815 | 17,694,584 | 18,725,983 | 18,864,586 | 19,512,609 |
| **Total** | **$ 24,130,361** | **$ 23,588,418** | **$ 28,824,801** | **$ 25,184,855** | **$ 25,977,544** |

* Negative restrictions are presented as unassigned in the basic financial statements as required by GASB Statement No. 54.

The total fund balance of the General Fund increased $792,689 as a result of 2026 activity. Of this increase, $648,023 is in the unassigned fund balance, which is available for spending on any purpose.

As of June 30, 2026, the District reported an unassigned fund balance of $19,512,609, which is approximately one and one-fourth months' or 10.6% of expenditures (based on 2026 levels). The District's fund balance policy outlines a minimum of 10.0% of the annual expenditure budget.

**General Fund Operations (Continued)**
One of the most common comparable statistics used to evaluate school district financial health is the operating fund balance as a percentage of operating expenditures.




* Information was obtained from MDE web site report *Fiscal Year 2022-2025 General Fund Unreserved Balance*. 2026 information is not available.

** Obtained from MDE Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Report. This amount includes the amounts assigned for various projects as noted on the previous page. Excluding these assignments, this percentage would be less as noted in the table above.

The calculations above reflect only the unrestricted fund balance of the General Fund and the corresponding expenditures, which is the same method which the state uses for the statutory operating debt (SOD) calculation. SOD is when a district's unrestricted fund balance ends the year below (2.5%). The District's unrestricted fund balance in comparison to its expenditures has historically been lower than the state-wide average.

Since June 30, 2022, total fund balance has overall increased $1,847,183; however, the District's unassigned and nonspendable fund balance percentage from 2022 to 2026 has remained fairly consistent as expenditures have increased.

## Food Service Fund

The following table presents five years of comparative operating results for the District's Food Service Fund.

| For the Year Ended June 30, | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Revenues | $ 7,513,658 | $ 6,811,367 | $ 8,280,928 | $ 8,381,636 | $ 8,631,144 |
| Expenditures | 6,073,956 | 6,968,133 | 7,745,449 | 7,894,894 | 8,011,653 |
| Excess of revenues over (under) expenditures | 1,439,702 | (156,766) | 535,479 | 486,742 | 619,491 |
| Other financing sources | - | - | 49,003 | - | - |
| Fund balance, July 1 | 903,798 | 2,343,500 | 2,186,734 | 2,771,216 | 3,257,958 |
| **Fund Balance, June 30** | **$ 2,343,500** | **$ 2,186,734** | **$ 2,771,216** | **$ 3,257,958** | **$ 3,877,449** |

In 2026, fund balance increased to $3,877,449, which is approximately 48.4% of the 2026 expenditures of this Fund. Revenues increased $249,508 due to an increase in the number of meals served and an increase in the USDA meal reimbursement rate. Expenditures increased $116,759 primarily due to increased food and milk costs with the increase in the number of meals served and additional equipment purchases made in an attempt to spend down fund balance.

## Community Service Fund

The following table presents five years of comparative operating results for the District's Community Service Fund.

| For the Year Ended June 30, | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Revenues | $ 6,937,193 | $ 6,885,427 | $ 6,856,373 | $ 6,921,742 | $ 6,977,177 |
| Expenditures | 6,777,374 | 7,227,327 | 7,337,967 | 7,008,670 | 6,662,191 |
| Excess of revenues over (under) expenditures | 159,819 | (341,900) | (481,594) | (86,928) | 314,986 |
| Fund balance, July 1 | 3,355,523 | 3,515,342 | 3,173,442 | 2,691,848 | 2,604,920 |
| **Fund Balance, June 30** | **$ 3,515,342** | **$ 3,173,442** | **$ 2,691,848** | **$ 2,604,920** | **$ 2,919,906** |

| Components | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Nonspendable | $ 8,873 | $ 7,601 | $ 9,845 | $ 75 | $ - |
| Restricted for | | | | | |
| Community education | 1,509,947 | 1,303,552 | 1,098,021 | 1,116,339 | 1,336,445 |
| ECFE | 355,920 | 345,777 | 254,371 | 235,074 | 327,698 |
| Adult basic education | 448,418 | 431,145 | 324,223 | 393,536 | 506,450 |
| School readiness | 1,061,218 | 967,217 | 880,070 | 743,407 | 659,065 |
| Community service | 130,966 | 118,150 | 125,318 | 116,489 | 90,248 |
| **Total** | **$ 3,515,342** | **$ 3,173,442** | **$ 2,691,848** | **$ 2,604,920** | **$ 2,919,906** |

In 2026, fund balance increased to $2,919,906. Revenues increased $55,435 primarily due to an increase in the property tax levy allocated to the Community Service Fund. Expenditures decreased by $346,479 primarily due to a decrease in salaries and benefits due to position restructuring, less severance payouts and a decrease in workers compensation expenditures, as well as unspent nonpublic textbook funds.

**Independent School District No. 742**
**Legislative Summary**

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

**Basic General Education Aid**
The formula allowance for 2026 was set at $7,481 and for 2027, the formula allowance increases to $7,683, which is a 2.7% increase over 2026.

**Compensatory Education Revenue**
For fiscal year 2027 only, compensatory revenue will be calculated using the greater of the direct certification only formula enacted in the 2023 legislative session or the prorated 2026 revenue adjusted for fall enrollment.

**English Learner Aid and Cross Subsidy**
For 2026, the aid was $1,228 times the greater of 20 or total English learner ADM. For 2027, this increases to $1,775 times the greater of 20 or total English learner ADM. The English learner concentration formula amount increased from $436 in 2026 to $630 in 2027. For 2027 and later, a district's Cross Subsidy Aid equals 25% of the district's cross subsidy, which is the greater of zero or the difference between the district's expenditures for qualifying services for the second prior year and the district's English learner revenue for the second previous year.

**Food Service Net Cash Resource Limitation**
The allowable excess net cash resource threshold remains at six months of average operating expenditures through fiscal year 2027. The excess net cash resources is a federal compliance standard established under USDA regulations (7 CFR 210.14(b)). This measure focuses on the program's liquidity, or the amount of cash readily available to cover operating costs. The USDA requires that net cash resources not exceed the equivalent of three months of average operating expenses, unless the State agency has approved a different limit.

**Long-Term Facilities Maintenance (LTFM) Revenue**
Districts may include roof repair and replacement costs totaling $100,000 or more per site in the annual LTFM revenue authority effective for fiscal year 2027 and later. The LTFM equalizing factor increases to 125.5% for fiscal year 2027 and 127% for fiscal year 2028.

**School Library Aid**
Beginning in fiscal year 2026, the school library aid per pupil allowance decreased from $16.11 to $10.27 for 2026 and 2027, and $9.12 for 2028 and later. The minimum amount for a school district is reduced from $40,000 to $20,000, while the minimum amount for a charter school is reduced from $20,000 to $10,000 beginning in 2026.

**School and Student Safety**
By June 30, 2027, the board of a school district or charter school must adopt a policy to implement the use of an anonymous threat reporting system. Districts or schools electing to use a reporting system must implement either the local or state-wide system by July 1, 2028. One-time grants of up to $10,000 per district or $2,500 per charter school are available for 2027 to fund expenses associated with the development, purchase, implementation, operations and maintenance of an anonymous threat reporting system.

**School and Student Safety (Continued)**
Mobile crisis one-time grants are available in 2027 with dollars to be expended through June 30, 2029. School-linked behavioral health grants are available one-time in 2027 with dollars to be expended through June 30, 2029.

**Seasonal Tax Base Replacement Aid**
The seasonal tax base replacement aid is provided to reduce a portion of voter approved operating referendum in districts with seasonal recreational property. One-time aid for 2027 of $2.542 million is approved.

**Special Education Aid**
The Special Education Cross Subsidy Reduction Aid paid to districts increased from 6.43% to 44% beginning in 2024. A further increase to 50% begins in 2027.

**Student Support Personnel Aid**
The per pupil allowance increased from $30.05 in 2026 and 2027 to $34.32 in 2028 and 2029.

**Independent School District No. 742**
**Emerging Issues**

**Executive Summary**
The following is an executive summary of financial related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Accounting Standard Update – GASB Statement No. 105 – *Subsequent Events***
  GASB has issued GASB Statement No. 105 relating to subsequent events. This Statement defines recognized and nonrecognized subsequent events and outlines the required note disclosures for nonrecognized subsequent events.
- **Uniform Grants Guidance Considerations**

The following are extensive summaries of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your District.

**Independent School District No. 742**
**Emerging Issues**

**Accounting Standard Update – GASB Statement No. 105 – *Subsequent Events***
The objective of this Statement is to improve financial reporting related to subsequent events by clarifying the subsequent events time frame, defining recognized and nonrecognized subsequent events and specifying the information that is required to be disclosed about subsequent events.

Subsequent events are transactions or events that occur after the financial statement date but before the financial statements are available to be issued. Financial statements are considered available to be issued when they are complete in accordance with GAAP and all required approvals for issuance have been obtained.

A recognized event is a subsequent event that provides evidence of conditions that existed at the financial statement date that inform accounting estimates reported as of the financial statement date.

A nonrecognized event is a subsequent event that results in a significant effect that is recognized or disclosed in the basic financial statements in the reporting period in which the event occurs and is one of the following: a debt-related transaction, a government combination or disposal of government operations, a change to the legally separate entities that compose the financial reporting entity or a transaction or other event that is disclosure of which is essential to a user's analysis for making decisions or assessing accountability.

Required disclosures for nonrecognized events include a description of the nonrecognized event and its effect, and an estimate of the amount of the effect of the nonrecognized event or the reason why an estimate of the amount cannot be made.

GASB Statement No. 105 is effective for fiscal years beginning after June 15, 2026. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

**Independent School District No. 742**
**Emerging Issues**

**Uniform Grants Guidance Considerations**

On May 29, 2026, the *Office of Management and Budget* (OMB) issued a notice of proposed rulemaking (NPRM), which proposed amendments to 2 CFR Part 200 (Uniform Guidance). As a result of the proposed changes by the OMB, the following items should be considered by management for implementation:

- Be prepared to provide payment justification support for federally funded costs.
- Costs such as advertising, conferences, professional development, memberships, and subscriptions may be subject to additional questioning. Document the rationale behind the allowability determination.
- Develop written policies and procedures for monitoring subrecipients.
- Develop written documentation of internal controls over federal awards. Current guidance in Part 200.303 states that internal controls should align with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO); however, proposed changes could remove reference to these frameworks.

In addition, the following changes have been implemented in recent years and should be considered when updating policies or procedures.

- The single audit threshold increased from $750,000 to $1,000,000.
- Update all policy references from "OMB Uniform Guidance" or "Grants and Agreements" to "OMB Guidance for Federal Financial Assistance".
- Replace the term "non-Federal entity" with "recipient or subrecipient", as applicable.
- Increase the de minimis indirect cost rate from 10% to 15% of Modified Total Direct Costs (MTDC). Update MTDC definition to include up to the first $50,000 of each subaward (up from $25,000).
- The capitalization threshold for equipment and supplies purchased with federal funds may be increased from $5,000 to $10,000 per unit.
- Incorporate Buy America preference requirements for iron, steel, manufactured products, and construction materials into infrastructure-related procurement and contracting policies.
- Add a requirement to take "reasonable cybersecurity measures" to safeguard sensitive data. Cybersecurity expectations should also be incorporated into subaward agreements.
- Expand mandatory disclosure policies to require the prompt disclosure of credible evidence of fraud, bribery or gratuities, and conflict of interest violations.