Management Report

for

Independent School District No. 15
St. Francis, Minnesota

June 30, 2026

LB | CARLSON
Certified Public Accountants Business Consultants

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LB | CARLSON

To the School Board and Management of
Independent School District No. 15
St. Francis, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 15's (the District) financial statements for the year ended June 30, 2026. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- General Fund Analysis
- Other District Funds
- Government-Wide Financial Statements
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the District, management, and those with responsibility for oversight of the District's financial reporting process comments resulting from our audit and information relevant to school district financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

LB Carlson, LLP

LB CARLSON, LLP
Minneapolis, Minnesota

November 11, 2026

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## AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

### OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the 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 provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

### PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

The District is subject to a Single Audit of its federal awards expenditures for the year ended June 30, 2026, which is required to be performed in accordance with Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). It was originally planned that the Single Audit would be completed and issued along with the District's financial statement audit by December 31, 2026. However, issuance of the 2026 *Compliance Supplement* by the Office of Management and Budget has been delayed, and the final version is not yet issued. The 2026 *Compliance Supplement* guidance is effective for Single Audits of federal awards expenditures for the year ended June 30, 2026. Consequently, Single Audits for this period cannot be finalized until the final version of this guidance is issued. Single Audits have a federal deadline of March 31, 2027. The District plans to issue its audited Schedule of Expenditures of Federal Awards and related reports separately by this deadline.

### AUDIT OPINIONS AND FINDINGS

Based on our audit of the District's financial statements for the year ended June 30, 2026:

- We have issued unmodified opinions on the District's basic financial statements.

- In regard to the District's internal controls over financial reporting, we have reported the following material weakness:

    - The District has a limit segregation of duties in several areas. An ideal system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization may not be able to control the direct impact of turnover, it is important that you are aware of this condition.

- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

- We reported no findings based on our testing of the District's compliance with Minnesota laws and regulations.

## OTHER OBSERVATIONS AND RECOMMENDATIONS

**Internal Controls Over Vendors –** A relatively common method of attempting to defraud local governments involves inducing them to pay claims from fictitious vendors for goods or services that were never provided. Strong safeguards over adding new vendors or making changes to existing vendors within the government's accounts payable system is an important control to help mitigate this risk. Some considerations in this area include:

- Limiting the number of employees with access to add or alter vendor records within the accounts payable system,
- Requiring vendor additions or changes to be reviewed and approved by supervisory personnel, preferably one not directly involved in processing accounts payable,
- Verifying the legitimacy of vendors by obtaining a W-9 or other means,
- Verifying any changes to vendor address or banking information prior to processing payments, and
- Periodically reviewing the vendor listing to remove inactive vendors from the system.

**Improper Uniform Financial Accounting and Reporting Standards (UFARS) Coding** – During the course of the audit, we evaluated the coding of revenue and expenditure transactions specifically as it relates to compliance with UFARS. During our procedures, we noted certain receipts and disbursements selected for testing that were improperly coded by the UFARS.

While we did not consider these errors pervasive enough to warrant a finding for noncompliance with UFARS, we recommend the District review and improve the policies and procedures in place regarding proper coding as required by UFARS, Minnesota's legally prescribed set of accounting standards for all school districts.

## SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2026. However, the District implemented the following governmental accounting standard during the year:

- The District implemented Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements* during the fiscal year ended June 30, 2026. This standard improved key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

## ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for the current fiscal year is not finalized until after the District has closed its financial records. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident district and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services, which are computed using formulas derived by the Minnesota Department of Education (MDE). Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the District has closed its financial records. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Position for compensated absences. Management's estimate is based on current rates of pay, unused compensated absence balances, and the likelihood compensated absences will be paid out over the course of employment or at termination.

The District has recorded activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies, primarily described in GASB Statement Nos. 68 and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

The depreciation/amortization of capital assets involves estimates pertaining to useful lives.

The District's self-insured activities require recording a liability for claims incurred, but not yet reported, which are based on estimates.

We evaluated the key factors and assumptions used by management to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

## CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

## DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated November 11, 2026.

## MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis, and the budgetary, pension, and OPEB-related required supplementary information (RSI) that supplement 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.

We were engaged to report on the supplementary information accompanying the financial statements and the separately issued Uniform Financial Accounting and Reporting Standards Compliance Table, which are not RSI. With respect to this supplementary information, 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 financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and other district information section, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the District's governmental funds, which includes the General, special revenue, capital project, and debt service funds. These funds are used to account for the various services the District provides, which are financed primarily with intergovernmental revenue and property taxes. The governmental fund information in the District's financial statements focuses on budgetary compliance and the sufficiency of each governmental fund's current assets to finance its current liabilities.

### Governmental Fund Balances

The following table summarizes the changes in the fund balances of the District's governmental funds during the year ended June 30, 2026, presented both by fund balance classification and by fund:

**Governmental Funds Change in Fund Balance**

| | Fund Balances as of June 30, | | |
|---|---|---|---|
| | 2026 | 2025 | Change |
| Fund balances of governmental funds | | | |
| Total by classification | | | |
| Nonspendable | $ 864,142 | $ 844,522 | $ 19,620 |
| Restricted | 22,257,099 | 13,497,227 | 8,759,872 |
| Assigned | 8,437,370 | 8,438,055 | (685) |
| Unassigned | 9,048,244 | 10,512,134 | (1,463,890) |
| Total governmental funds | $ 40,606,855 | $ 33,291,938 | $ 7,314,917 |
| Total by fund | | | |
| General | $ 25,288,847 | $ 26,824,868 | $ (1,536,021) |
| Capital Projects – Building Construction | 9,667,330 | 285,412 | 9,381,918 |
| Debt Service | 1,379,610 | 1,556,502 | (176,892) |
| Nonmajor funds | | | |
| Food Service | 2,068,861 | 2,289,633 | (220,772) |
| Community Service | 2,202,207 | 2,335,523 | (133,316) |
| Total governmental funds | $ 40,606,855 | $ 33,291,938 | $ 7,314,917 |

In total, the fund balances of the District's governmental funds increased by $7,314,917 during the year. The majority of the increase was due to the Long-Term Facilities Maintenance (LTFM) and tax abatement bonds issued for deferred maintenance projects in the Capital Projects – Building Construction Fund.

## GOVERNMENTAL FUNDS REVENUE

The following table presents all of the District's governmental funds revenue by source for the last two fiscal years. Other financing sources, such as proceeds from sales of capital assets, insurance recoveries, bond sales, loans, and interfund transfers are excluded.

**Governmental Funds Revenue by Source**

| | 2026 | | 2025 | | Year-to-Year Change | |
|---|---|---|---|---|---|---|
| | Revenue | Percent of Total | Revenue | Percent of Total | Dollar Change | Percent Change |
| Property taxes | $ 13,313,260 | 16.7 % | $ 14,077,128 | 17.8 % | $ (763,868) | (5.4) % |
| State sources | 56,500,393 | 70.6 | 54,092,208 | 68.1 | 2,408,185 | 4.5 % |
| Federal sources | 3,522,190 | 4.4 | 3,675,082 | 4.6 | (152,892) | (4.2) % |
| Other local sources | | | | | | |
| Meal sales | 265,548 | 0.3 | 284,404 | 0.4 | (18,856) | (6.6) % |
| Community service fees | 2,602,723 | 3.3 | 2,563,017 | 3.2 | 39,706 | 1.5 % |
| Investment earnings | 1,454,573 | 1.8 | 1,780,855 | 2.2 | (326,282) | (18.3) % |
| Other | 2,333,724 | 2.9 | 2,930,927 | 3.7 | (597,203) | (20.4) % |
| Total revenue | $ 79,992,411 | 100.0 % | $ 79,403,621 | 100.0 % | $ 588,790 | 0.7 % |

The District's governmental funds revenues for 2026 were $79,992,411, an increase of $588,790 (0.7 percent), over the prior year.

The mix of local and state revenues vary from year-to-year, primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies, due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

State sources increased $2,408,185 due to more state special education funding and improved funding for the basic general education formula allowance. Property taxes were down with a reduction in the levy for the General Fund, the Community Service Special Revenue Fund, and the Debt Service Fund.

**BASIC GENERAL EDUCATION REVENUE**

The table on the previous page illustrates the District's dependence on state aids and grants which provided 70.6 percent of its total governmental funds revenue in the current year. The largest single funding source for Minnesota school districts is basic general education aid. Each year, the 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 using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

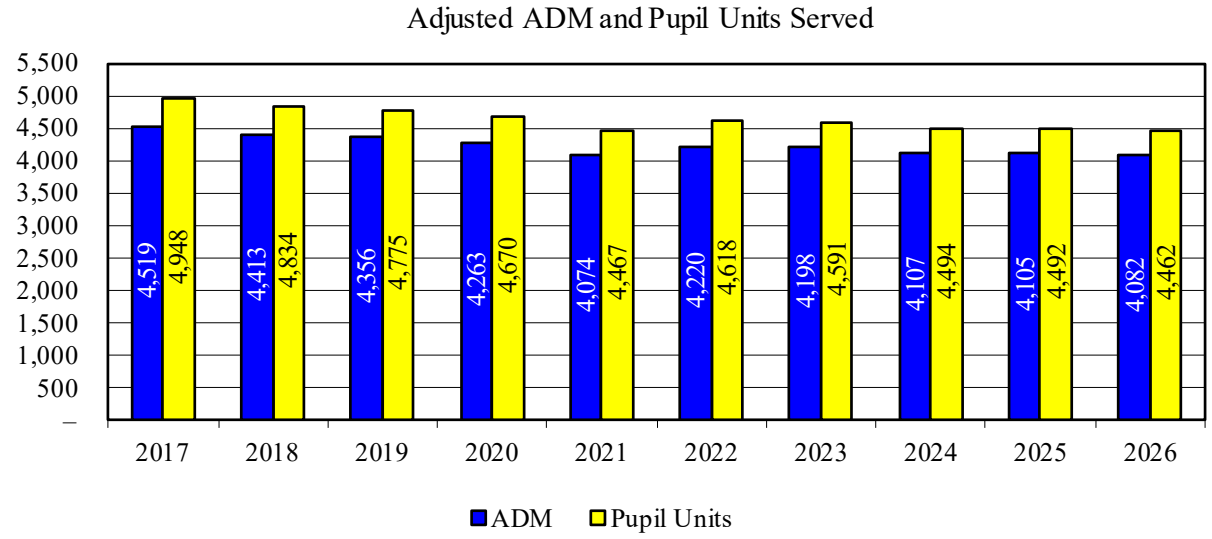
The table below presents a summary of the formula allowance for the past decade and as approved for the next fiscal year. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the "roll-in" of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual districts.

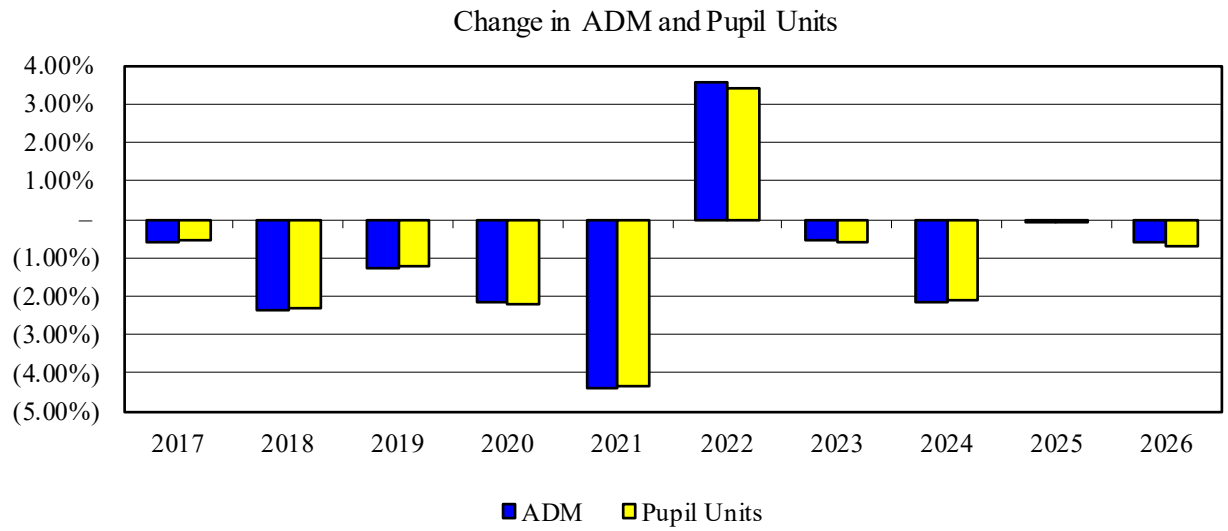
For fiscal 2026 and beyond, the annual formula increase will be adjusted for inflation, using a formula based on the Consumer Price Index-Urban (CPI-U) average inflation rate for the fourth calendar quarter of the immediately prior fiscal year compared to the average for the fourth calendar quarter of the second prior fiscal year, with a floor of 2.00 percent and a cap of 3.00 percent. This resulted in a per pupil increase to the basic formula allowance of $200 for fiscal 2026 and $202 for fiscal 2027.

| Fiscal Year Ended June 30, | Formula Allowance | |
|---|---|---|
| | Amount | Percent Increase |
| 2017 | $ 6,067 | 2.00 % |
| 2018 | $ 6,188 | 2.00 % |
| 2019 | $ 6,312 | 2.00 % |
| 2020 | $ 6,438 | 2.00 % |
| 2021 | $ 6,567 | 2.00 % |
| 2022 | $ 6,728 | 2.45 % |
| 2023 | $ 6,863 | 2.00 % |
| 2024 | $ 7,138 | 4.00 % |
| 2025 | $ 7,281 | 2.00 % |
| 2026 | $ 7,481 | 2.75 % |
| 2027 | $ 7,683 | 2.70 % |

## AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The number of students served by the District determines the amount of general education aid the District earns, and factors into various other funding formulas. The following graphs present the District's adjusted ADM and pupil units served for the past 10 years, along with the annual rates of change for both:




ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes, the impact of the prior year final adjustments which affect this year's revenue, and also the final adjustments caused by open enrollment gains and losses.

The District served an estimated adjusted ADM of 4,082 in 2026, a decrease of 23 from the previous year. The number of pupil units served by the District for fiscal 2026 was 4,462, a decrease of 30 (0.7 percent) from the prior year.

## PROPERTY TAXES

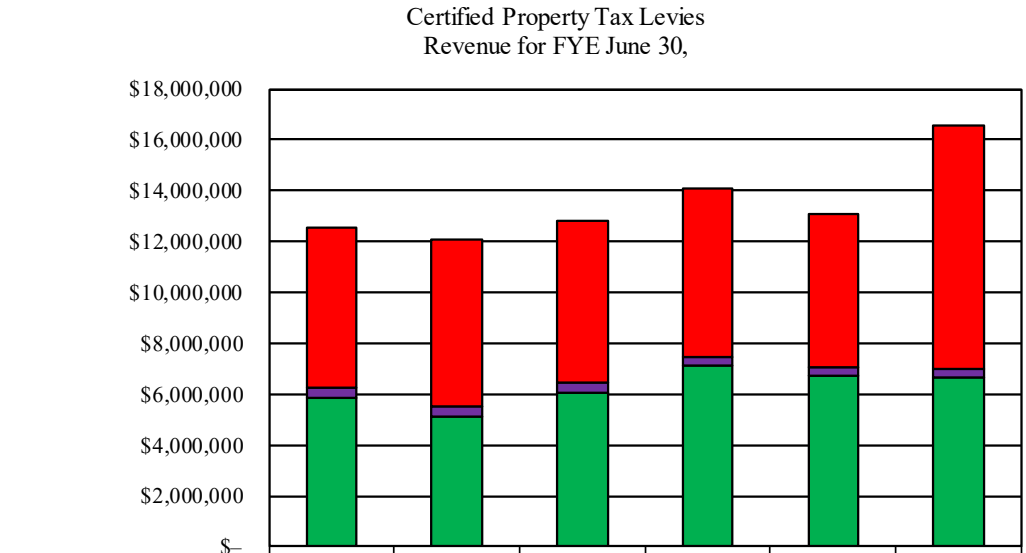
The second largest revenue source Minnesota school districts depend on to support governmental fund activities is local property taxes. State legislative priorities, property values and types, and other factors impact the split of some revenue sources between state aids and property taxes. Additional local support through voter-approved operating or capital referenda may also impact the size of a district's annual levy. In the 2026 fiscal year, property taxes provided 16.7 percent of the District's total governmental funds revenue.

A unique aspect of Minnesota school district funding results from property taxes being levied and collected on a calendar year basis, while districts operate with a June 30 fiscal year-end. Generally, property taxes recognized as revenue by a district in a given fiscal year relate to the levy that is collectible during the calendar year that begins six-months prior to a district's fiscal year. The Minnesota Legislature utilizes a tool referred to as the "tax shift" which periodically changes the recognition of district property tax revenue. However, the net year-to-year impact of this shift has been minimal in recent years.

Property tax revenue realized by a district year-to-year will also be affected by cancellations or abatements of taxes levied, as well as collection delinquencies. These factors primarily disrupt the timing of revenues, as adjustments are made to future levy authority to recover abatements. However, some districts have experienced significant short-term budgetary challenges due to large abatement adjustments from market value declines in the commercial/industrial property class in recent years.

The following graph shows the District's annual certified property tax levy by fund for each of the past five fiscal years, along with the levy certified for collection during calendar year 2026, which will fund the District's 2027 fiscal year operations:

The District's total certified property tax levy for fiscal year 2026 was $13,068,866, which represented a decrease of 7.1 percent compared to the prior year. The District has set a total certified property tax levy for fiscal year 2027 at $16,557,016, which represents an increase of 26.7 percent compared to the fiscal year 2026 levy. This increase was for debt service on long-term facilities maintenance debt.




| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| Debt Service Fund | $6,272,585 | $6,558,256 | $6,362,297 | $6,580,669 | $6,020,889 | $9,593,004 |
| Community Service Fund | $386,631 | $425,707 | $420,531 | $381,961 | $325,443 | $287,770 |
| General Fund | $5,876,353 | $5,100,044 | $6,037,426 | $7,109,926 | $6,722,534 | $6,676,242 |

## GOVERNMENTAL FUNDS EXPENDITURES

The District's governmental funds expenditures are classified into three types as follows:

- **Current** – These are typically the general operating type expenditures occurring on an annual basis, which are primarily funded by general sources, such as taxes and intergovernmental revenues.

- **Capital Outlay** – These expenditures represent the cost of acquiring, constructing, or maintaining the District's facilities and other significant capital assets. They are typically project-oriented and occur on a less consistent basis, often fluctuating significantly from year-to-year. These expenditures are primarily funded with various types of debt issues, or through specific capital or deferred maintenance property tax levies.

- **Debt Service** – Expenditures for debt service tend to be relatively consistent over the term of each individual debt issuance but fluctuate based on changes in the volume of debt outstanding. Factors such as changing demographics, aging infrastructure, or evolving technology may impact a district's capital needs, and consequently its use of debt financing, over time.

The following table presents the District's governmental funds expenditures by type for the last two fiscal years. Other financing uses, such as bond refundings and transfers, are excluded**.**

**Governmental Funds Expenditures by Type**

| | 2026 | | 2025 | | Year-to-Year Change | |
|---|---|---|---|---|---|---|
| | Expenditures | Percent of Total | Expenditures | Percent of Total | Dollar Change | Percent Change |
| Current | | | | | | |
| Administration and district support | $ 5,519,667 | 6.3 % | $ 5,070,102 | 6.5 % | $ 449,565 | 8.9 % |
| Regular instruction | 25,277,406 | 28.7 | 24,922,205 | 31.9 | 355,201 | 1.4 % |
| Special and vocational education instruction | 17,291,647 | 19.7 | 15,596,093 | 20.0 | 1,695,554 | 10.9 % |
| Instructional support services | 5,655,985 | 6.4 | 4,389,942 | 5.6 | 1,266,043 | 28.8 % |
| Pupil support services | 7,353,628 | 8.4 | 6,339,909 | 8.1 | 1,013,719 | 16.0 % |
| Sites, buildings, and other | 6,477,750 | 7.4 | 6,832,668 | 8.8 | (354,918) | (5.2) % |
| Food service | 3,619,373 | 4.1 | 3,410,033 | 4.4 | 209,340 | 6.1 % |
| Community service | 3,427,504 | 3.9 | 3,154,292 | 4.0 | 273,212 | 8.7 % |
| Total current | 74,622,960 | 84.9 | 69,715,244 | 89.3 | 4,907,716 | 7.0 % |
| Capital outlay | 6,277,839 | 7.1 | 1,079,801 | 1.4 | 5,198,038 | 481.4 % |
| Debt service | 7,036,647 | 8.0 | 7,270,014 | 9.3 | (233,367) | (3.2) % |
| Total expenditures | $ 87,937,446 | 100.0 % | $ 78,065,059 | 100.0 % | $ 9,872,387 | 12.6 % |

Total expenditures in the District's governmental funds for 2026 were $87,937,446, an increase of $9,872,387 (12.6 percent).

The increase in total spending was largely found in capital outlay. Current spending was up with the increase spread across nearly every program as presented in the above table. Capital outlay spending was more in the current year with the District issuing bonds and project spending up largely for the planning costs for upcoming projects in the Capital Projects – Building Construction Fund. Debt service spending was down as anticipated with payment schedules of outstanding debt.

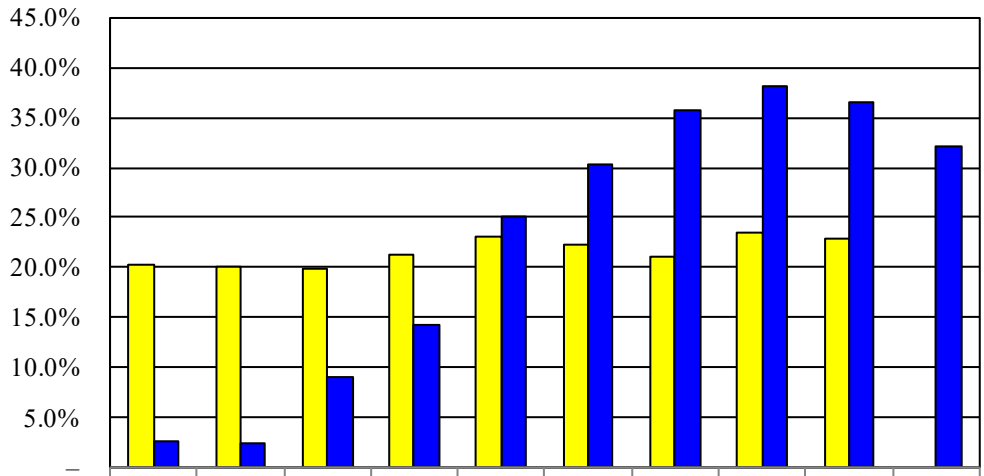
## GENERAL FUND ANALYSIS

This section of the report focuses specifically on the financial trends and activities of the General Fund, which accounts for financial activity related to the basic services the District provides to the community. The primary services included within this fund are instructional services and support, administration and district support, pupil transportation and support, and the maintenance and operation of the District's facilities.

### STATE-WIDE GENERAL FUND FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the General Fund unrestricted operating fund balance as a percentage of unrestricted operating expenditures.

State-Wide Unrestricted Operating Fund Balance
as a Percentage of Operating Expenditures




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| State-Wide | 20.3% | 20.0% | 19.9% | 21.3% | 23.0% | 22.2% | 21.0% | 23.4% | 22.8% | – |
| ISD No. 15 – St. Francis | 2.7% | 2.4% | 9.0% | 14.2% | 25.0% | 30.3% | 35.8% | 38.2% | 36.6% | 32.2% |

Note: State-wide information is not available for fiscal 2026.

The calculation above reflects only the unrestricted fund balance of the General Fund, and the corresponding expenditures, which is the same method the state uses for the calculation of statutory operating debt. We have also included the comparable percentages for your district.

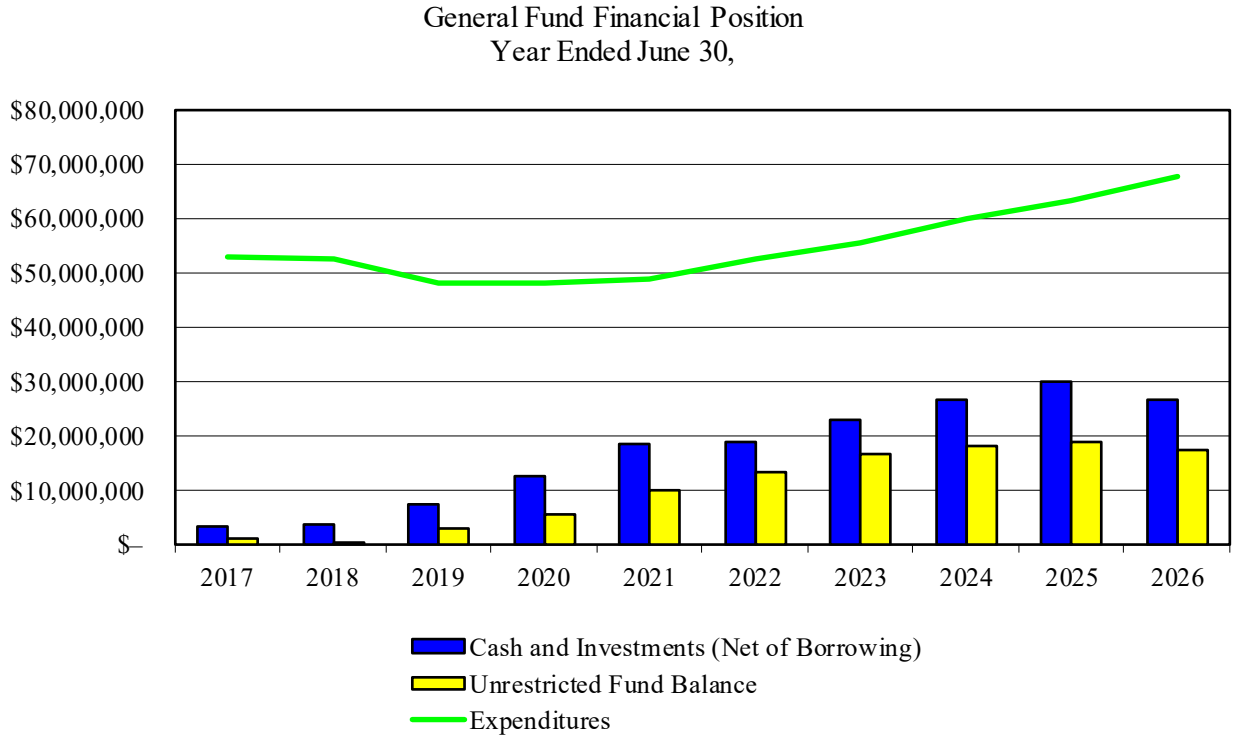
The state-wide average unrestricted fund balance as a percentage of operating expenditures for Minnesota school districts has fluctuated between 21.0 percent and 23.4 percent over the last five fiscal years for which data is available.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 32.2 percent at the end of the current year, as compared to 36.6 percent at June 30, 2025.

Having an appropriate fund balance is an important factor in assessing the District's financial health because a government, like any organization, requires a certain amount of equity to operate. It is important to review fund balance levels on an ongoing basis to ensure a sufficient equity reserve is available to support programs and cash flow of the District.

## GENERAL FUND FINANCIAL POSITION

The following graph displays the District's General Fund trends of financial position and changes in the volume of financial activity. Unrestricted fund balance and cash balance are two indicators of financial health, while annual expenditures are often used to measure the size of the operation.




The District ended fiscal year 2026 with a General Fund cash balance of $26,836,224 (net of borrowing and interfund receivables and payables), a decrease of $3,068,801 from the previous year. Unrestricted fund balance (consisting of any assigned or unassigned fund balances) at year-end totaled $17,519,542, a decrease of $1,431,927.

The following table presents the components of the General Fund balance for the past five years:

| | June 30, | | | | |
|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2026 |
| Nonspendable fund balances | $ 671,673 | $ 519,214 | $ 914,117 | $ 791,068 | $ 831,501 |
| Restricted fund balances (1) | 7,407,225 | 5,992,907 | 6,348,004 | 7,082,331 | 6,937,804 |
| Unrestricted fund balances | | | | | |
| Assigned | 6,120,939 | 6,146,085 | 5,999,624 | 8,438,055 | 8,437,370 |
| Unassigned | 7,273,311 | 10,599,039 | 12,361,253 | 10,513,414 | 9,082,172 |
| Total fund balances | $ 21,473,148 | $ 23,257,245 | $ 25,622,998 | $ 26,824,868 | $ 25,288,847 |
| Unrestricted fund balances as a percentage of total expenditures | 25.5% | 30.1% | 30.6% | 29.8% | 25.8% |
| Unassigned fund balances as a percentage of total expenditures | 13.9% | 19.0% | 20.6% | 16.5% | 13.4% |

(1) Includes deficits in restricted fund balance accounts allowed to accumulate deficits under UFARS, which are part of unassigned fund balance on the accounting principles generally accepted in the United States of America-based financial statements.

The table above reflects the total General Fund unrestricted fund balance and percentages, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula. The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

At June 30, 2026, unrestricted fund balances in the General Fund represented 25.8 percent of annual expenditures, or approximately 13 weeks of operations assuming level spending throughout the year.

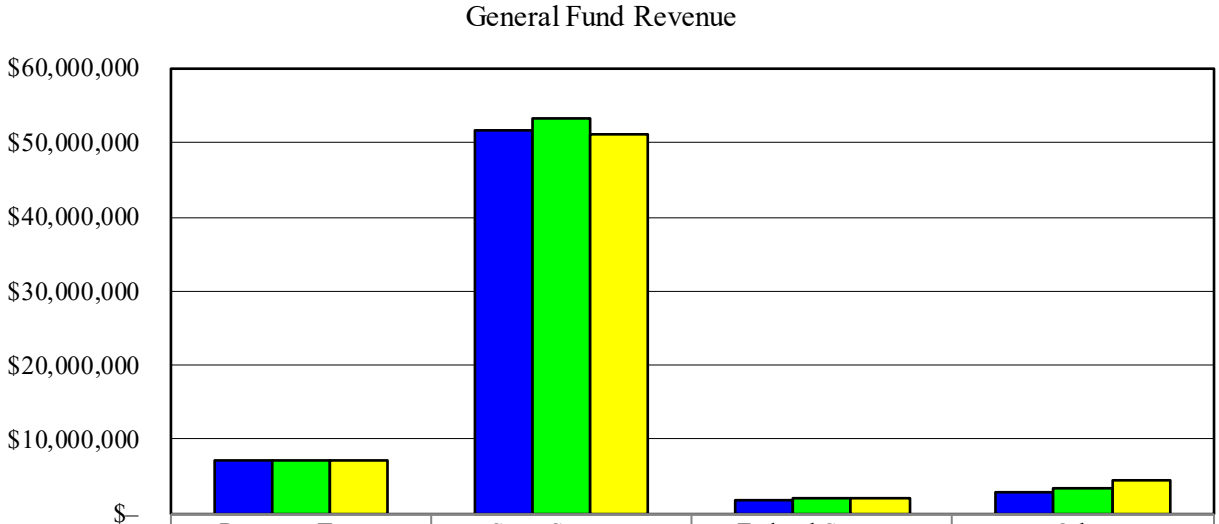
**Minimum Fund Balance Policy**

The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes that the District will strive to maintain a minimum unassigned General Fund balance of 12.0 percent of operating expenditures.

On June 30, 2026, unassigned fund balance of the General Fund was 13.4 percent of the actual fiscal 2026 General Fund expenditures, or approximately 7 weeks of operations assuming level spending throughout the year.

## GENERAL FUND REVENUES

The following graph presents the District's General Fund revenues for 2026:




| | Property Taxes | State Sources | Federal Sources | Other |
|---|---|---|---|---|
| Budget | $7,134,651 | $51,797,291 | $1,749,274 | $3,012,157 |
| Actual | $7,091,987 | $53,346,281 | $2,124,203 | $3,514,791 |
| Prior Year | $7,255,127 | $51,156,041 | $2,191,518 | $4,459,230 |

Total General Fund revenues were $66,077,262 for the year ended June 30, 2026, which was $2,383,889 (3.7 percent) over the final budget.

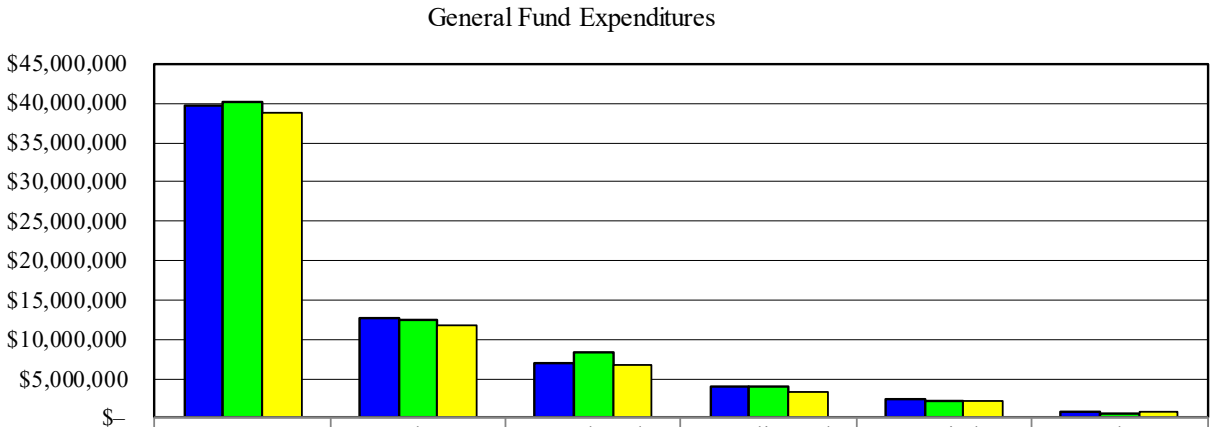
Revenues were better than anticipated in the budget for state sources, federal sources, and other local sources as presented in the above graph. Favorable variances were largely due to conservative budgeting. State sources were over budget primarily due to a conservative estimate for state special education funding. Investment earnings, tuition, fees, and admissions, reported in other sources, were contributors to the favorable variance in revenues due to conservative budget practices for these less predictable sources. Federal sources were over budget with more special education federal revenue than projected. Property taxes were slightly less than projected, partially offsetting the favorable variances previously discussed.

The District reported more revenue compared to the prior year, with the increase found in state sources. State sources were more than the prior year with additional special education funding and funding improvements in general education aid in the current year.

The graph above reflects the concentration of state sources (80.7 percent), followed by property taxes (10.7 percent) that provide most of the revenue available to finance General Fund operations.

## GENERAL FUND EXPENDITURES

The following graph presents the District's General Fund expenditures for 2026:




| | Salaries | Employee Benefits | Purchased Services | Supplies and Materials | Capital Expenditures | Other Expenditures |
|---|---|---|---|---|---|---|
| Budget | $39,686,744 | $12,710,682 | $7,035,879 | $3,911,727 | $2,299,846 | $812,030 |
| Actual | $40,217,792 | $12,535,720 | $8,271,465 | $4,030,836 | $2,235,019 | $583,086 |
| Prior Year | $38,848,054 | $11,846,601 | $6,663,753 | $3,261,459 | $2,163,100 | $809,013 |

Total General Fund expenditures were $67,873,918 for the year ended June 30, 2026, which was $1,417,010 (2.1 percent) more than the final budget and $4,281,938 (6.7 percent) more than the prior year.

Salary and benefit-related charges, which account for 77.7 percent of General Fund expenditures, increased by $2,058,857 (4.1 percent) and were $356,086 (0.7 percent) over amounts planned in the budget. Spending was over budget for salaries and benefits in elementary and secondary regular instruction, instructional support services, and pupil support services. Spending on personnel services increased with approved contractual increases.

Spending on purchased services increased as anticipated in the budget for natural inflationary growth and additional demands in special education instruction and sites and buildings. Spending for purchased services was more than projected largely in these same areas of special education instruction and in sites and buildings.

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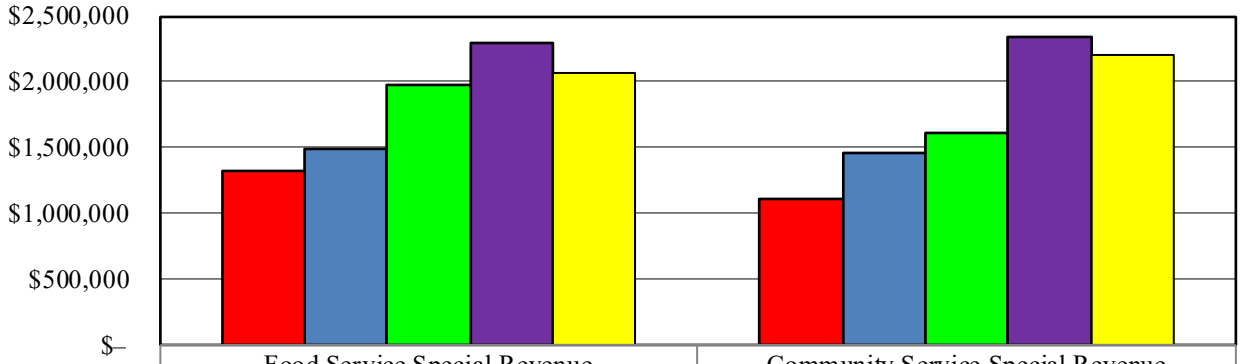
## OTHER DISTRICT FUNDS

The following graph shows what is referred to as the other operating funds. The remaining nonoperating funds are only included in narrative form below, since their level of fund balance can fluctuate significantly, due to such things as issuing and spending the proceeds of refunding or building bonds and, therefore, the trend of fund balance levels is not necessarily a key indicator of financial health. It does not mean that these funds cannot experience financial trouble or that their fund balances are unimportant.

Other Operating Funds
Total Fund Balances




| | Food Service Special Revenue | Community Service Special Revenue |
|---|---|---|
| 2022 | $1,324,095 | $1,107,585 |
| 2023 | $1,492,506 | $1,454,431 |
| 2024 | $1,977,422 | $1,617,795 |
| 2025 | $2,289,633 | $2,335,523 |
| 2026 | $2,068,861 | $2,202,207 |

### Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2026 with a fund balance decrease of $220,772, compared to a decrease of $256,327 anticipated in the budget. Actual revenues and expenditures were above projected amounts by $302,626 and $267,071, respectively, with more program participation than anticipated. The Food Service Special Revenue Fund had a total year-end fund balance of $2,068,861, representing 51.4 percent of annual expenditures totaling $4,021,764.

### Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended fiscal 2026 with a fund balance decrease of $133,316, compared to a budgeted decrease of $1,004,822. Actual revenues were more than projected amounts by $712,714, while actual expenditures were less than budget by $158,792. Revenues were over budget with a conservative estimate for tuition and fees as current year revenues were slightly more than the prior year. Spending was less than projected largely with the savings found in salaries, benefits, and capital outlay. The Community Service Special Revenue Fund had a total year-end fund balance of $2,202,207, representing 58.8 percent of annual expenditures totaling $3,744,677.

Over the years, we have emphasized to our clients that food service and community service operations should be self-sustaining and should not become an additional burden on general education funds. The District has been able to maintain healthy, stable fund balances in both funds. The District should continue reviewing upcoming capital needs of these operations and incorporate that information in establishing optimal level of fund balances that are also within state and federal fund balance limits.

**Capital Projects – Building Construction Fund**

The Capital Projects – Building Construction Fund ended the year with a fund balance increase of $9,381,918, compared to an increase of $9,780,579 anticipated in the budget. Capital outlay expenditures were more than budget, due to timing of projects. At year-end, fund balance of $9,667,330 remains restricted for long-term facilities maintenance capital projects.

**Debt Service Fund**

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. It is important to remember that resources of the Debt Service Fund are dedicated to payment of outstanding debt obligations of the District. The District has $1,379,610 restricted for general debt service.

**Proprietary Funds – Internal Service Funds**

The District uses internal service funds to account for dental insurance offered by the District to its employees as self-insured plans. The following table presents the activity reported for the past three fiscal years for the internal service fund:

| | June 30, | | |
|---|---|---|---|
| | 2024 | 2025 | 2026 |
| Operating revenue | | | |
| Charges for services | $ 367,385 | $ 410,222 | $ 434,143 |
| Operating expenses | | | |
| Dental benefit claims | 407,042 | 423,651 | 429,978 |
| Change in net position | (39,657) | (13,429) | 4,165 |
| Net position | | | |
| Beginning of year | 149,294 | 109,637 | 96,208 |
| End of year | $ 109,637 | $ 96,208 | $ 100,373 |

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents district resources available for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, this statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized reconciliation of the District's governmental fund balances to net position, and the separate components of net position for the last two years:

| | June 30, | | |
|---|---|---|---|
| | 2026 | 2025 | Change |
| Net position – governmental activities | | | |
| Total fund balances – governmental funds | $ 40,606,855 | $ 33,291,938 | $ 7,314,917 |
| Total capital assets, net of depreciation/amortization | 131,200,095 | 128,595,752 | 2,604,343 |
| Bonds payable (including premium/discount) | (84,540,530) | (73,863,391) | (10,677,139) |
| Pension adjustments | (29,239,665) | (31,408,077) | 2,168,412 |
| OPEB adjustments | (3,349,793) | (3,508,282) | 158,489 |
| Other adjustments | (6,796,068) | (8,952,055) | 2,155,987 |
| Total net position – governmental activities | $ 47,880,894 | $ 44,155,885 | $ 3,725,009 |
| Net position | | | |
| Net investment in capital assets | $ 54,495,702 | $ 52,714,152 | $ 1,781,550 |
| Restricted | 11,245,795 | 12,221,388 | (975,593) |
| Unrestricted | (17,860,603) | (20,779,655) | 2,919,052 |
| Total net position | $ 47,880,894 | $ 44,155,885 | $ 3,725,009 |

Some of the District's fund balances translate into restricted net position by virtue of external restrictions (statutory restrictions) or by the nature of the fund they are in (e.g., Food Service Special Revenue Fund balance can only be spent for food service program costs). The unrestricted net position category consists mainly of the General Fund unrestricted fund balances, offset against noncapital long-term obligations, such as compensated absences payable, pension, and OPEB obligations.

Total net position increased by $3,725,009 during fiscal 2026. The District's net investment in capital assets increased $1,781,550 this year. The change in this category of net position typically depends on the relationship between the rate at which the District is adding capital assets, the rate capital assets are being depreciated and amortized, and how that compares to the rate at which the District is repaying the debt issued to purchase or construct those assets.

Restricted net position decreased from the prior year in amounts restricted for capital asset acquisition, debt service, food service, community service, and other state funding purposes. The change in unrestricted net position includes changes in the District's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association pension plan liabilities and related deferments.

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## ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years.

### GASB STATEMENT NO. 105, *SUBSEQUENT EVENTS*

The primary objective of this statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users.

This statement defines subsequent events as transactions or other events that occur after the date of the financial statements, but before the date the financial statements are available to be issued. This statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This statement also requires the date through which subsequent events have been evaluated to be disclosed.

This statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events.

The requirements of this statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

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