



**Independent School District No. 698  
Floodwood, Minnesota**

**Communications Letter**

**June 30, 2025**

**Independent School District No. 698**  
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## 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. 698  
Floodwood, 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. 698, Floodwood, Minnesota, as of and for the year ended June 30, 2025, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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.

The material weakness 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 December 18, 2025, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the information and use of management, the School Board 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.

BerganKDV, Ltd.

St. Cloud, Minnesota  
December 18, 2025

**Independent School District No. 698**  
**Material Weakness**

**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 financial statements. Currently, journal entries are not being reviewed before they are posted.

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 cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur. Currently, journal entries are not being reviewed before they are posted.

We recommend segregation or independent review be implemented whenever practical and cost effective.

**Independent School District No. 698  
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, 2025. Professional standards require that we advise you of the following matters related to our audit.

**Our Responsibility in Relation to the 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 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 judgement, 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 audited 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 taken 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.

**Planned Scope and Timing of the Audit**

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

**Independent School District No. 698  
Required Communication**

**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:

- Management Override of Controls Through the Journal Entry Process - This is considered a risk in substantially all engagements.
- Improper Revenue Recognition - Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- If duties cannot be appropriately segregated within the accounting department, there is a risk related to payroll disbursements.
- State Aid Valuation - Revenue and receivable amounts related to General Education Aid and Special Education Aid are generally material to the financial statements and involve significant estimates.
- 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.
- Other Post Employment Benefits (OPEB) Valuation - Net 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.
- Compensated Absences Valuation - Compensated absence balances are generally material to the financial statements and involve 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 have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2025. 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 judgements. Those judgements 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 judgements. The most sensitive estimates affecting the basic financial statements relate to:

**Independent School District No. 698  
Required Communication**

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

*Significant Accounting Estimates and Related Disclosures (Continued)*

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 deadlines, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

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 Related to Pensions, and Deferred Inflows of Resources Related to Pensions - These balances are based on an allocation by the pension plans using estimates based on contributions.

Compensated Absences Liability - This balance is an estimate based on assumption of hours more likely than not to be used by employees while employed by the district or paid out upon separation of employment.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined 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 basic 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 as a whole and each applicable opinion unit.



**Independent School District No. 698  
Required Communication**

**Uncorrected and Corrected Misstatements (Continued)**

The following bullet point summarizes the uncorrected financial statement misstatement whose effects in the current and prior periods, as determined by management, is 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.

- Proceeds and outlay were not recorded for a new lease agreement 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.

**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.

**Independent School District No. 698  
Required Communication**

**Other Information Included in Annual Reports (Continued)**

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. 698**  
**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.

**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 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.

Year	General Education Aid Formula Allowance	
	Amount	Percent Increase
2016	\$ 5,302	2.0%
2017	5,831	2.0%
2018	5,948	2.0%
2019	6,067	2.0%
2020	6,188	2.0%
2021	6,312	2.0%
2022	6,438	2.5%
2023	6,567	2.0%
2024	6,728	4.0%
2025	6,863	2.0%
2026	7,138	2.7%

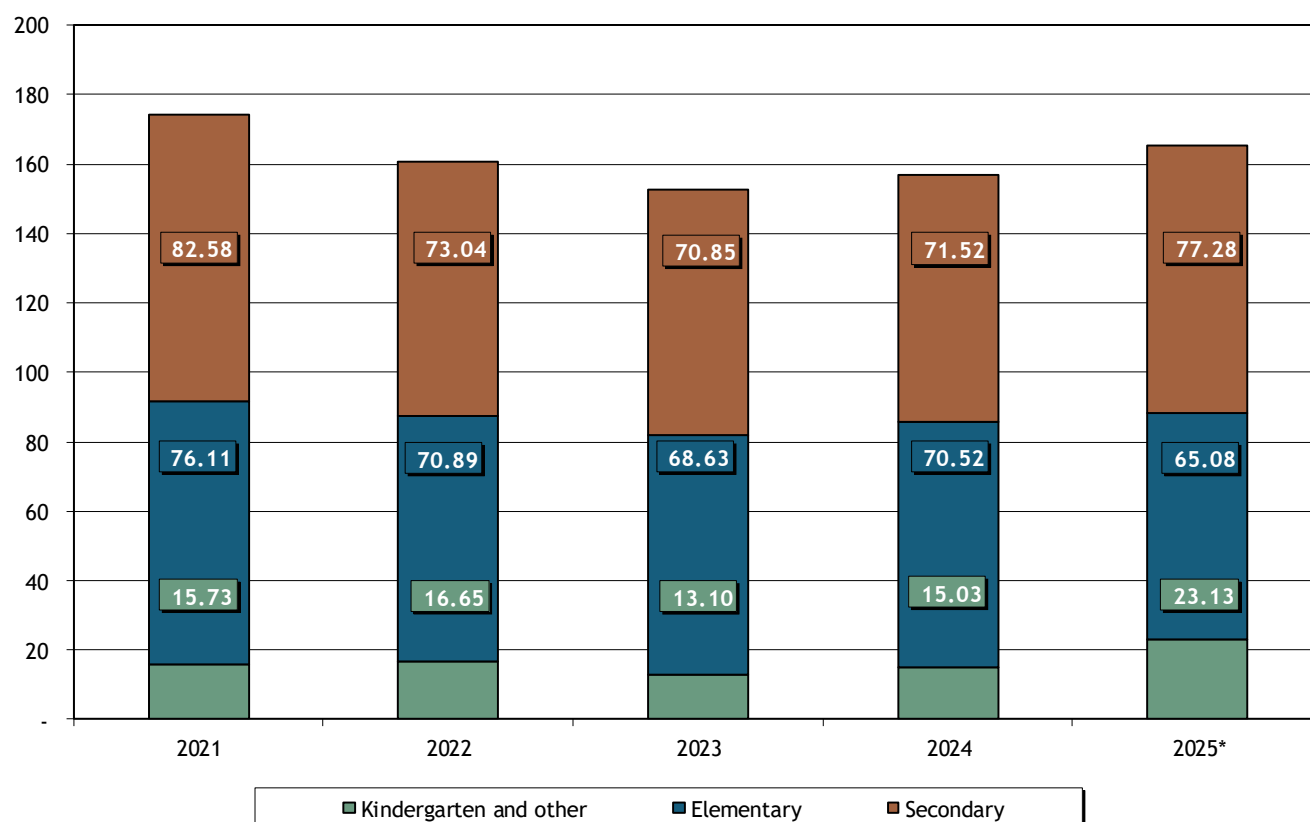
# Independent School District No. 698 Financial Analysis

## Average Daily Membership and Pupil Units

The following summarizes resident ADM of the District over the past five years ended June 30:

ADM	2021	2022	2023	2024	2025*
Kindergarten and other	15.73	16.65	13.10	15.03	23.13
Elementary	76.11	70.89	68.63	70.52	65.08
Secondary	82.58	73.04	70.85	71.52	77.28
<b>Total</b>	<b>174.42</b>	<b>160.58</b>	<b>152.58</b>	<b>157.07</b>	<b>165.49</b>

## Students (ADM)



\* Estimates

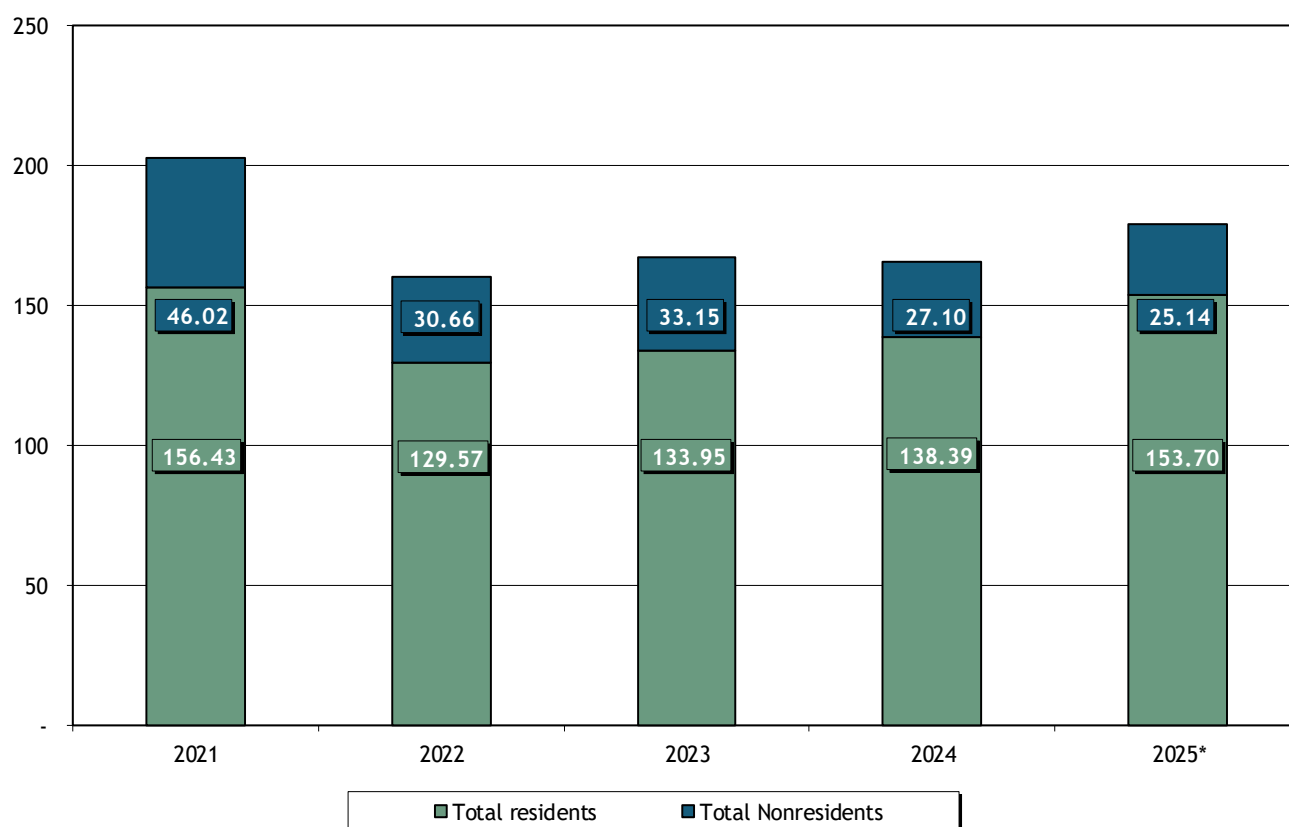
The graph above illustrates resident ADM increased in 2025 from 2024. In 2025, ADM units increased to 165.49, an increase of 8.42 units or 5.4%. The chart and graph on the following page converts the ADM into pupil unit numbers (PUN) for the same five years, including the effects of open enrollment.

# Independent School District No. 698 Financial Analysis

## Average Daily Membership and Pupil Units (Continued)

PUN	2021	2022	2023	2024	2025*
Residents	190.94	175.19	166.75	171.39	180.95
Resident PUN going elsewhere	(34.51)	(45.62)	(32.80)	(33.00)	(27.25)
Total residents	156.43	129.57	133.95	138.39	153.70
Nonresident PUN coming in	46.02	30.66	33.15	27.10	25.14
<b>Total PUN Served</b>	<b>202.45</b>	<b>160.23</b>	<b>167.10</b>	<b>165.49</b>	<b>178.84</b>

### Students Served (PUN)



\* Estimates

Resident PUN going elsewhere decreased 5.75 units from the prior year and nonresidents coming in decreased 1.96 units during the same time frame. The number of resident PUN increased 9.56. These changes caused the total PUN served to increase 13.35 from 2024.

# Independent School District No. 698 Financial Analysis

## Average Daily Membership and Pupil Units (Continued)

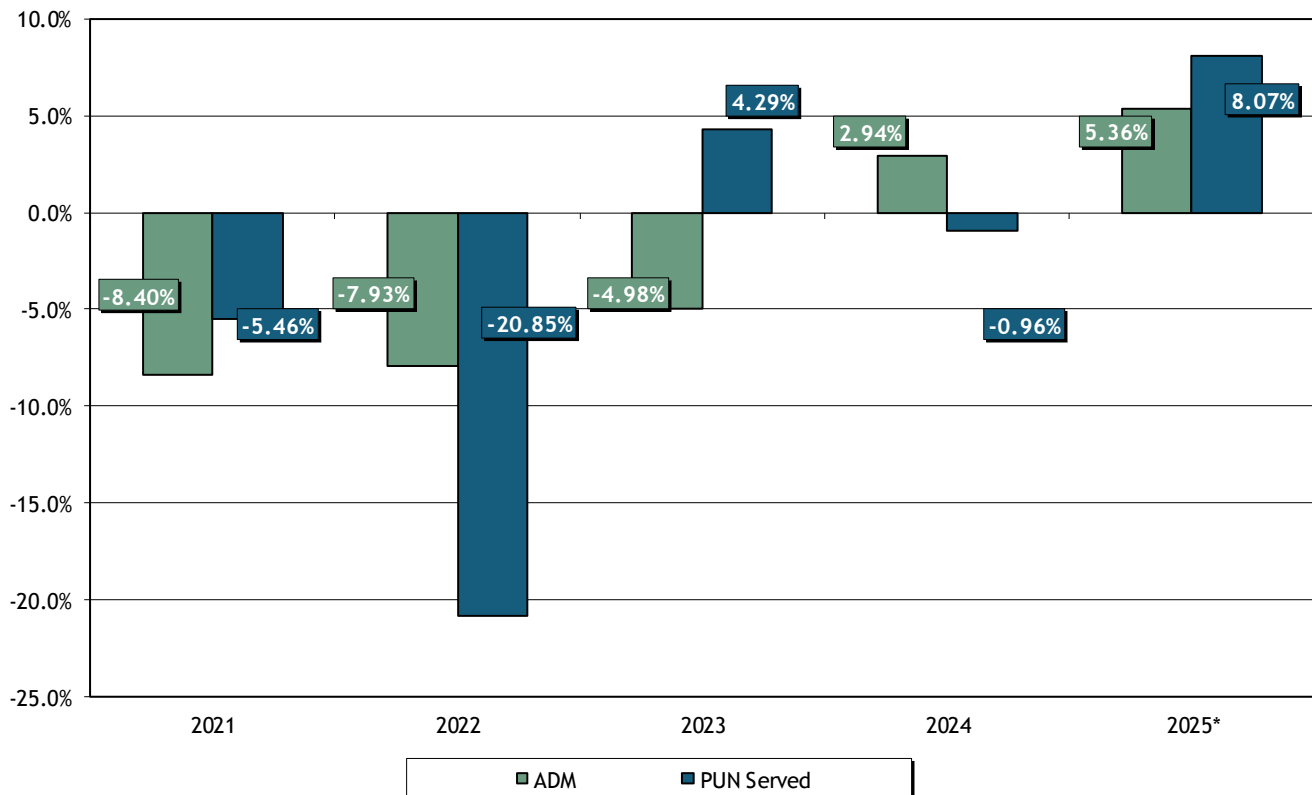
When reviewing this information, the reader should consider pupil weighting as shown in the table below, which shows secondary pupil counts are weighted more. Pupil units are computed by weighting ADM (PUN) using the factors in the table below.

### Pupil Units Weighting

	Pre-Kindergarten and Handicapped Kindergarten	Kindergarten	Elementary	Secondary
Fiscal Years 2021-2025	1.000	1.000	1.000	1.200

When reviewing the five year history, the District should be aware that PUN numbers directly affect the amount of funding the District receives from the federal and state government. PUN served had an overall downward trend. The chart below shows how District ADM and PUN have followed a similar trend over the past five years.

### Change in ADM and PUN Served



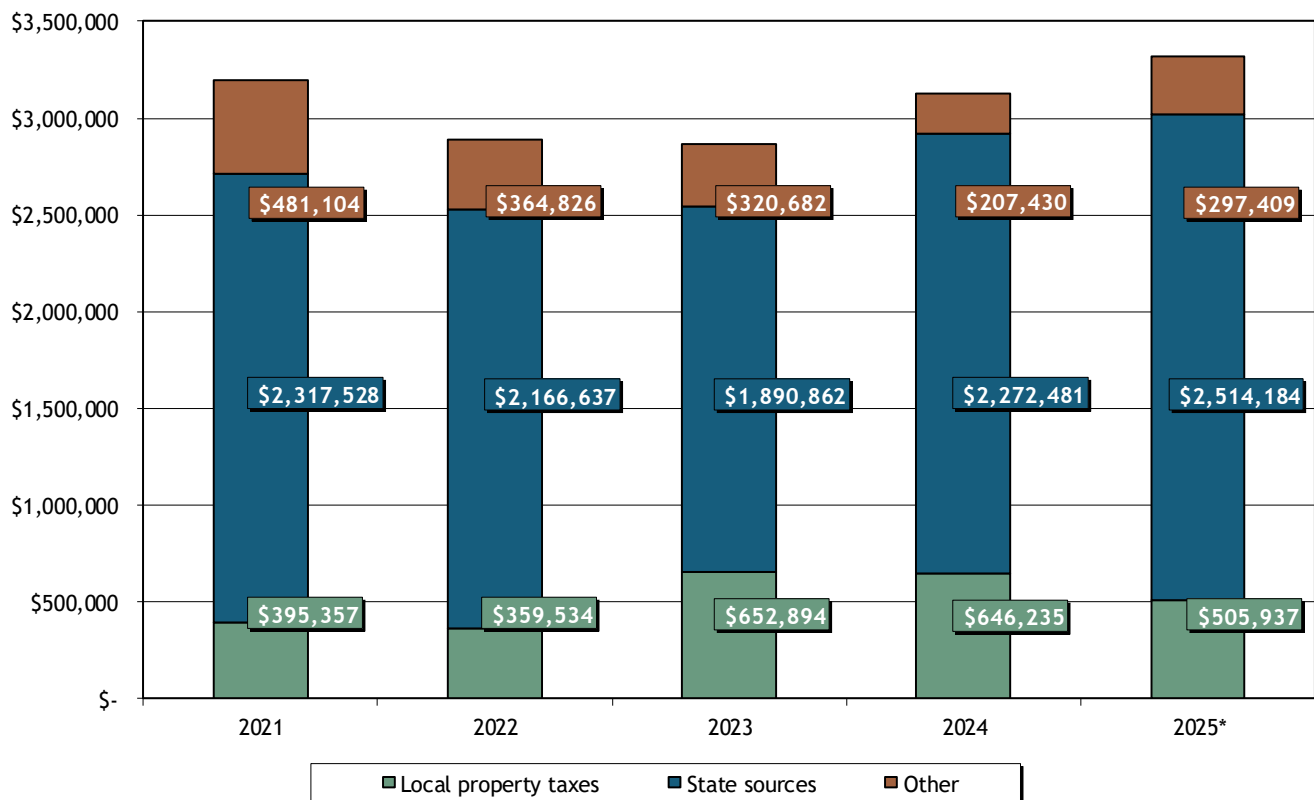
## Independent School District No. 698 Financial Analysis

### General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

	2021	2022	2023	2024	2025*
Local property taxes	\$ 395,357	\$ 359,534	\$ 652,894	\$ 646,235	\$ 505,937
State sources	2,317,528	2,166,637	1,890,862	2,272,481	2,514,184
Other	481,104	364,826	320,682	207,430	297,409
<b>Total</b>	<b>\$ 3,193,989</b>	<b>\$ 2,890,997</b>	<b>\$ 2,864,438</b>	<b>\$ 3,126,146</b>	<b>\$ 3,317,530</b>

### General Fund Sources of Revenue



State sources represent 75.8% of the General Fund total revenue, with local taxpayers contributing 15.3% of the funding and federal and other sources making up the remaining 9.0%. Overall, revenues increased \$191,384, or 6.1%, from 2024. State sources increased \$241,703, or 10.6% from the prior year. This increase was due to an increase in special education entitlement as well as an increase in the General Education Aid formula allowance and pupil units. Other revenues, which consist of other local and county revenues, revenues from federal sources, and sales and other conversion of assets increased \$89,979 from 2024. This increase is due to receiving a grant from Lake County Power and an increase in medical assistance revenue. Property tax revenue decreased due to a decrease in the levy allocated to the General Fund.

**Independent School District No. 698**  
**Financial Analysis**

**General Fund Budget to Actual**

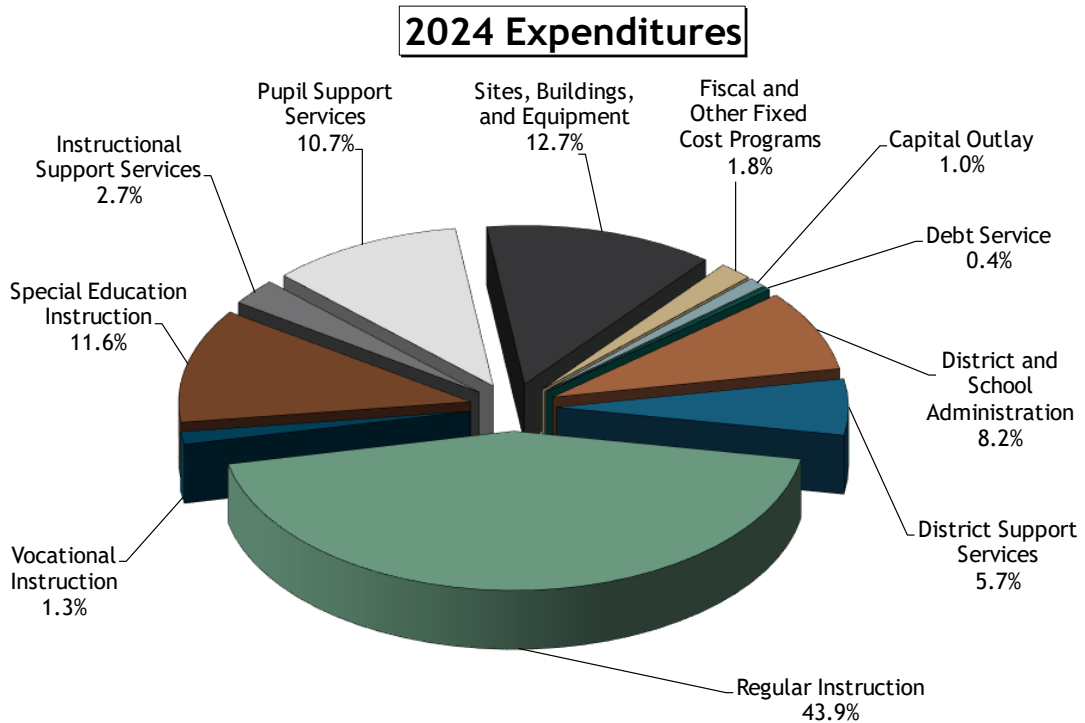
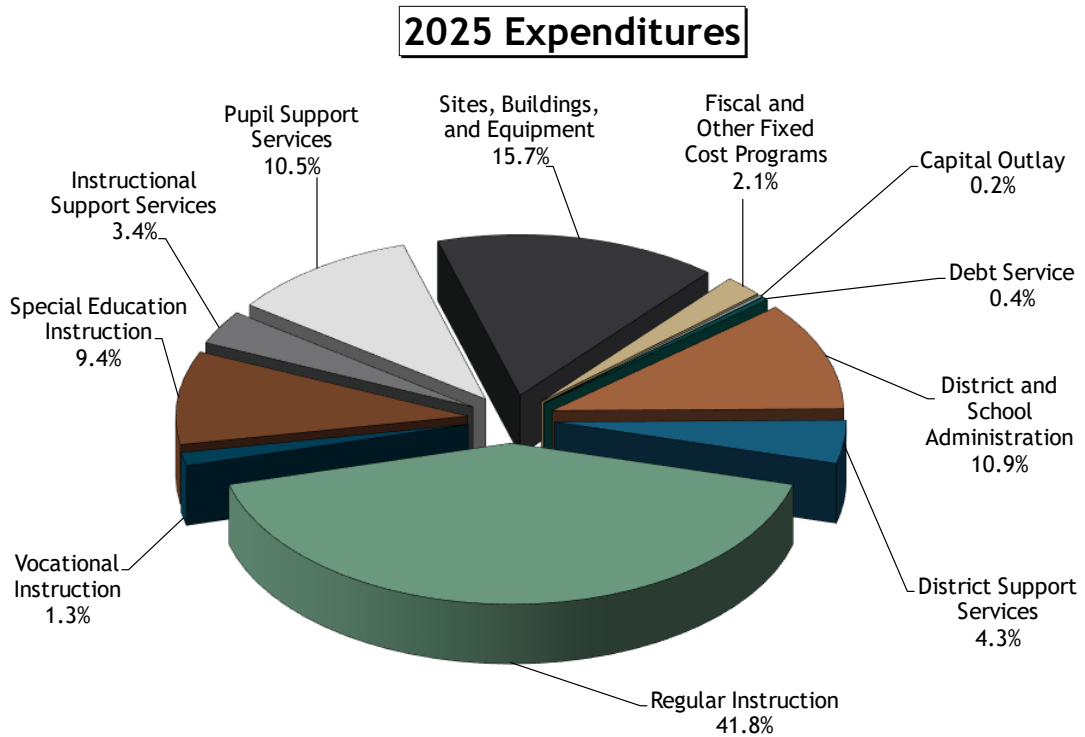
The following chart outlines the budget and actual results of the General Fund revenues and expenditures. Overall, actual revenue was over budget \$267,281 or 8.8%. Revenue from state sources represented the largest variance, coming in \$197,443 over budgeted amounts due to general education and special education entitlement exceeding budget. Other local and county revenues were over budget due to the Lake County Power grant received. All other revenue sources were consistent to the budget. Expenditures were \$214,456 or 7.0% over budget. Special education instruction was over budget \$57,557 due to an increase in personnel costs. Sites and buildings was 102,320 over budget due to multiple site inspections resulting in additional repair costs. All other budget categories were consistent with budgeted amounts.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 518,800	\$ 518,800	\$ 505,937	\$ (12,863)
Other local and county revenues	62,538	62,538	209,464	146,926
Revenue from state sources	2,316,741	2,316,741	2,514,184	197,443
Revenue from federal sources	107,170	107,170	61,124	(46,046)
Interest earnings	45,000	45,000	26,821	(18,179)
Total revenues	<u>3,050,249</u>	<u>3,050,249</u>	<u>3,317,530</u>	<u>267,281</u>
<b>Expenditures</b>				
Administration	350,329	350,329	358,345	8,016
District support services	139,785	139,785	142,110	2,325
Regular instruction	1,392,781	1,392,781	1,366,409	(26,372)
Vocational education instruction	51,560	51,560	43,509	(8,051)
Special education instruction	249,846	249,846	307,403	57,557
Instructional support services	89,604	89,604	117,808	28,204
Pupil support services	316,124	316,124	343,231	27,107
Sites and buildings	414,326	414,326	516,646	102,320
Fiscal and other fixed cost programs	45,000	45,000	70,425	25,425
Debt service	14,000	14,000	11,925	(2,075)
Total expenditures	<u>3,063,355</u>	<u>3,063,355</u>	<u>3,277,811</u>	<u>214,456</u>
Excess of revenues over (under) expenditures	<u>(13,106)</u>	<u>(13,106)</u>	<u>39,719</u>	<u>52,825</u>
<b>Other Financing Sources</b>	<u>2,700</u>	<u>2,700</u>	<u>150</u>	<u>(2,550)</u>
Net change in fund balances	\$ <u>(10,406)</u>	\$ <u>(10,406)</u>	\$ <u>39,869</u>	\$ <u>50,275</u>



Independent School District No. 698  
Financial Analysis

General Fund Expenditures



**Independent School District No. 698**  
**Financial Analysis**

**General Fund Operations (Continued)**

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

For the Year Ended June 30,	2021	2022	2023	2024	2025*
Revenues	\$ 3,193,989	\$ 2,890,997	\$ 2,864,438	\$ 3,126,146	\$ 3,317,530
Expenditures	3,256,159	3,138,513	3,022,506	3,111,038	3,277,811
Excess of revenues over (under) expenditures	(62,170)	(247,516)	(158,068)	15,108	39,719
Other financing sources (uses)	(4,499)	2,776	6,325	750	150
Other Financing Uses	-	-	-	-	-
Fund balance, July 1	875,823	809,154	564,414	412,671	428,529
Change in accounting principle	-	-	-	-	-
Prior period adjustment	-	-	-	-	-
<b>Fund Balance, June 30</b>	<b>\$ 809,154</b>	<b>\$ 564,414</b>	<b>\$ 412,671</b>	<b>\$ 428,529</b>	<b>\$ 468,398</b>

Components of Fund Balance	2021	2022	2023	2024	2025*
Restricted for					
Student Activities	\$ 16,397	\$ 16,848	\$ 18,071	\$ 31,171	\$ 31,285
Staff Development	-	17,057	38,159	54,530	64,565
Literacy Incentive Aid	-	-	-	6,289	13,966
Safe Schools Revenue	-	(6,381)	(17,552)	(17,552)	(14,018)
Operating Capital	53,421	46,973	61,901	77,447	92,040
Basic Skills	-	-	-	2	4,207
Literacy Aid	-	-	-	-	6,311
Teacher Comp for Read Act Training	-	-	-	-	4,432
Other	3,986	4,028	5,038	4,639	4,438
Learning and Development	-	403	-	-	-
Gifted and Talented	-	68	1,577	646	2,818
School Library Aid	-	-	-	11,595	10,127
Long-Term Facilities Maintenance	(53,421)	(64,317)	(69,413)	(29,854)	(87,184)
Student Support Personnel	-	-	-	40,000	53,929
Medical Assistance	42,103	47,515	48,167	16,434	1,927
Assigned -technology	155,000	155,000	155,000	155,000	55,000
Unassigned fund balance	591,668	347,220	171,723	78,182	224,555
<b>Total Fund Balance</b>	<b>\$ 809,154</b>	<b>\$ 564,414</b>	<b>\$ 412,671</b>	<b>\$ 428,529</b>	<b>\$ 468,398</b>

As previously discussed, General Fund revenue increased 6.1%, while General Fund expenditures increased 5.4%. General Fund revenues have increased 3.9% since 2021, and expenditures have increased 0.7% over the same period. Total fund balance has decreased \$340,756 over the five years shown to an ending fund balance at June 30, 2025, of \$468,398. As of June 30, 2025, the District's unassigned fund balance is 6.9% of expenditures. This fund balance represents less than one month of expenditures.

**Independent School District No. 698**  
**Financial Analysis**

**Food Service Fund**

In 2025, revenues and expenditures both increased due to an increased number of meals served.

We recommend the District continue to closely monitor the activity in this fund to ensure it continues to achieve a positive fund balance. The following table presents five years of comparative operating results for the District's Food Service Fund.

For the Year Ended June 30,	2021	2022	2023	2024	2025*
Revenues	\$ 86,512	\$ 113,656	\$ 100,128	\$ 133,464	\$ 145,138
Expenditures	98,833	112,923	87,097	127,734	140,139
Excess of revenues over (under) expenditures	(12,321)	733	13,031	5,730	4,999
Transfer in (out)	4,499	-	-	-	-
Fund balance, July 1	7,822	-	733	13,764	19,494
<b>Fund Balance, June 30</b>	<b>\$ -</b>	<b>\$ 733</b>	<b>\$ 13,764</b>	<b>\$ 19,494</b>	<b>\$ 24,493</b>

**Community Service Fund**

For the fifth time in the five years presented below, revenues in the Community Service Fund exceeded expenditures, causing an increase in fund balance. In 2025, revenues exceeded expenditures by \$1,495. Revenues increased due to an increase in state aid. Expenditures increased due to the reallocation of personnel costs to this fund.

For the Year Ended June 30,	2021	2022	2023	2024	2025*
Revenues	\$ 67,278	\$ 51,556	\$ 72,675	\$ 51,860	\$ 71,684
Expenditures	53,066	33,254	44,447	27,834	70,189
Excess of revenues over (under) expenditures	14,212	18,302	28,228	24,026	1,495
Transfer out	-	-	-	-	-
Fund balance, July 1	82,877	97,089	115,391	143,619	167,645
<b>Fund Balance, June 30</b>	<b>\$ 97,089</b>	<b>\$ 115,391</b>	<b>\$ 143,619</b>	<b>\$ 167,645</b>	<b>\$ 169,140</b>

## **Independent School District No. 698 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).

### **Achievement and Integration Revenue**

The administrative amount of each district's initial achievement and integration revenue that MDE may retain for administration of the program increased from 0.3% to 1.3% for the second prior fiscal year beginning in 2026 and later.

### **Basic Alternative Teacher Compensation Aid (Q-Comp)**

The total cap for basic alternative teacher compensation aid increased to \$89,486,000 for 2026 and beyond. Unspent "Q Comp" funds must be reserved in a restricted fund balance and used only for their intended purpose.

### **Basic General Education Aid**

The formula allowance for 2025 was set at \$7,281 and for 2026, the formula allowance increases to \$7,481, which is a 2.7% increase over 2025.

### **Compensatory Education Revenue**

For fiscal year 2026 only, the compensation revenue pupil units for each building in a district are set equal to the greater of the building's actual compensation revenue pupil units for revenue in FY 2026, or the building's actual compensation revenue pupil units computed for revenue in FY 2024. The transition to the new compensatory formula enacted in Minnesota Laws 2023, chapter 55 has been delayed until fiscal year 2027.

### **English Learner Aid and Cross Subsidy**

For 2026, the aid is \$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 increases 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 temporary 6-month net cash resource limit of operating expenditures in the Food Service Fund has been extended through fiscal year 2026 for authorities who provide justification for higher balances.

### **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 increased to offset the projected increase in statewide LTFM levies with additional equalization aid.

### **Pension Bill and Pension Adjustment Revenue**

Minnesota Laws 2025, chapter 37, article 13, section 1 increases the pension adjustment rate for all other districts (besides ISD No. 625, St. Paul) in fiscal year 2026 and later from 2.0% to 2.31%. Article 13, section 2 increases the employer contribution to the Teachers Retirement Association in the special revenue fund in fiscal year 2026 and later from 9.5% to 9.81% of the salary of each coordinated member and from 13.5% to 13.81% of the salary of each basic member.

**Independent School District No. 698  
Legislative Summary**

**School Library Aid**

Beginning in fiscal year 2026, the school library aid per pupil allowance is reduced 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.

**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**

Beginning in fiscal year 2026, the per pupil allowance is reduced from \$48.73 to \$30.05 in 2026 and 2027, and \$34.32 in 2028 and later. The cooperative student support allowance is reduced from \$2.44 to \$1.60 in 2026 and later.

## Independent School District No. 698 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. 103 - *Financial Reporting Model Improvements***

GASB has issued GASB Statement No. 103 relating to changes in financial reporting requirements. The changes provide clarity, enhance the relevance of information, provide more useful information for decision-making, and provide for greater comparability amongst government entities.

- **Accounting Standard Update - GASB Statement No. 104 - *Disclosure of Certain Capital Assets***

GASB has issued GASB Statement No. 104 relating to capital asset disclosures. The disclosures required by this Statement provide users of the financial statements with essential information about certain types of capital assets.

The following are 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. 698 Emerging Issues

### **Accounting Standard Update - GASB Statement No. 103 - *Financial Reporting Model Improvements***

The objective of this Statement is to improve 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. This Statement also addresses certain application issues.

This Statement addresses 5 areas of the financial statements (1) Management's Discussion and Analysis (MD&A), (2) Unusual or Infrequent Items, (3) Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position, (4) Major Component Unit Information, and (5) Budgetary Comparison Information.

This Statement continues the requirement that the MD&A precede the basic financial statements as part of the Required Supplementary Information (RSI). This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. The Statement stresses that detailed analyses should explain why balances and results of operations changed, rather than stating amounts and "boilerplate" discussions.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. The Statement provides clarification regarding operating and nonoperating revenues and expenses. Also, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This Statement requires governments to present budgetary comparison information using a single method of communication - RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

GASB Statement No. 103 is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).

**Independent School District No. 698  
Emerging Issues**

**Accounting Standard Update - GASB Statement No. 104 - *Disclosure of Certain Capital Assets***

The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets continue to be disclosed separately in the capital assets note disclosures including presentation of capital assets by major class and separate disclosure of lease assets, subscription assets, and intangible right-to-use assets.

This Statement requires additional disclosures for capital assets held for sale. A capital asset is held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date.

Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

GASB Statement No. 104 is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).