



**Independent School District No. 656
Faribault
Faribault, Minnesota**

Communications Letter

June 30, 2025

Independent School District No. 656
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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. 656
Faribault, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, Faribault, 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 a certain deficiency in internal control that we consider to be a material weakness and another 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.

The material weakness identified is stated within this letter.

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 19, 2025, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for management, the School Board, 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 by anyone for any other purpose.

BerganKDV, Ltd.

St. Cloud, Minnesota
November 19, 2025

Independent School District No. 656
Material Weakness

Material Audit Adjustments

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's basic financial statements.

In order to ensure basic financial statements were free from material misstatement, audit adjustments were required in the following areas:

- Interest payable and interest expenditures
- Current property tax receivable and property tax revenue
- Cash

Independent School District No. 656
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 financial statements.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle 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, along with the School Board, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all inclusive list:

Bullet points for general lack of segregation, payroll and disbursements below:

- The Director of Finance and Operations has access to all areas of the accounting system.
- The Payroll Clerk sets up employees in the payroll system, calculates and verifies pay, processes payroll, distributes paychecks and paystubs, completes quarterly reports and prepares W2s at the end of the calendar year.
- The Accounts Payable Clerk enters invoices into the accounts payable system, has access to blank check stock, prints checks and has access to digital signatures. The Accountant verifies coding and checks for proper approval of expenditures.
- Building secretaries receive cash and checks, prepare the deposit slips and take deposits to the bank.
- The Accounts Payable Clerk receives cash and checks, prepares the bank deposit slip, takes the deposits to the bank and enters receipts into the accounting system. The Accountant reconciles deposits with batches of receipts entered.

**Independent School District No. 656
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 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 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 audit 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.

**Independent School District No. 656
Required Communication**

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 *U.S. 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:

- There is a risk of improper bank reconciliation caused by a lack of segregation of accounting duties and a change in banks used by the District.
- Improper revenue recognition specific to property taxes and state aids. Revenue recognition is considered a fraud 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 the journal entry process. This is considered a risk in substantially all engagements.
- 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 - Compensated absences are generally material to the financial statements and involve significant estimates.

**Independent School District No. 656
Required Communication**

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:

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.

Net 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 - These balances are related to leave accrued based on employment contracts and estimates based on historical use of leave balances.

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 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.

**Independent School District No. 656
Required Communication**

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 receivables/revenues
- Federal receivables/revenues
- Interest payable/interest expense

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. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of and corrected by management.

- Interest payable and interest expenditures
- Current property tax receivable and property tax revenue
- Cash

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.

**Independent School District No. 656
Required Communication**

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 basic 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 basic 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. 656
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	\$ 5,948	2.0%
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%

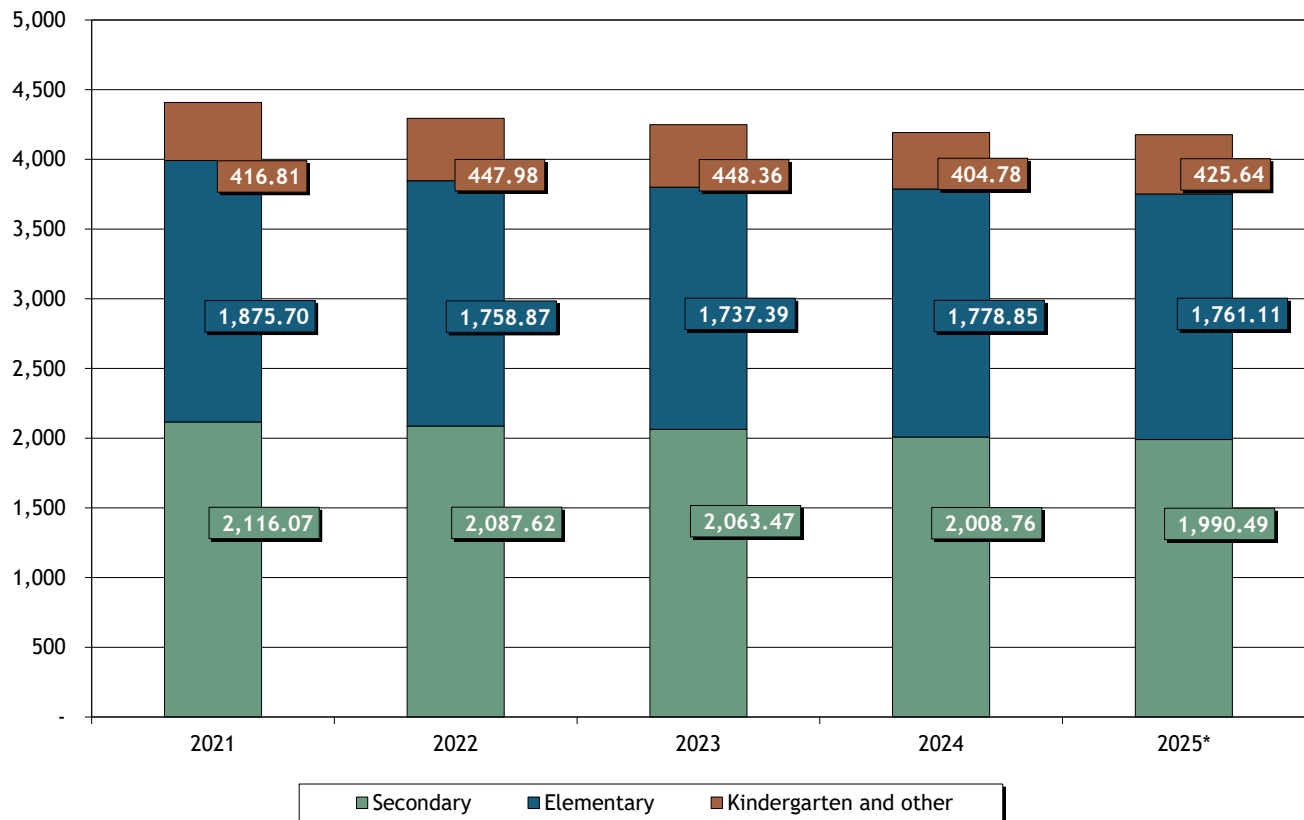
Independent School District No. 656 Financial Analysis

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*
Other	127.38	127.09	133.22	113.11	127.16
Kindergarten	289.43	320.89	315.14	291.67	298.48
Elementary	1,875.70	1,758.87	1,737.39	1,778.85	1,761.11
Secondary	2,116.07	2,087.62	2,063.47	2,008.76	1,990.49
Total Resident ADM	4,408.58	4,294.47	4,249.22	4,192.39	4,177.24
Change from Prior Year	(151.76)	(114.11)	(45.25)	(56.83)	(15.15)

Students (ADM)



* Estimate

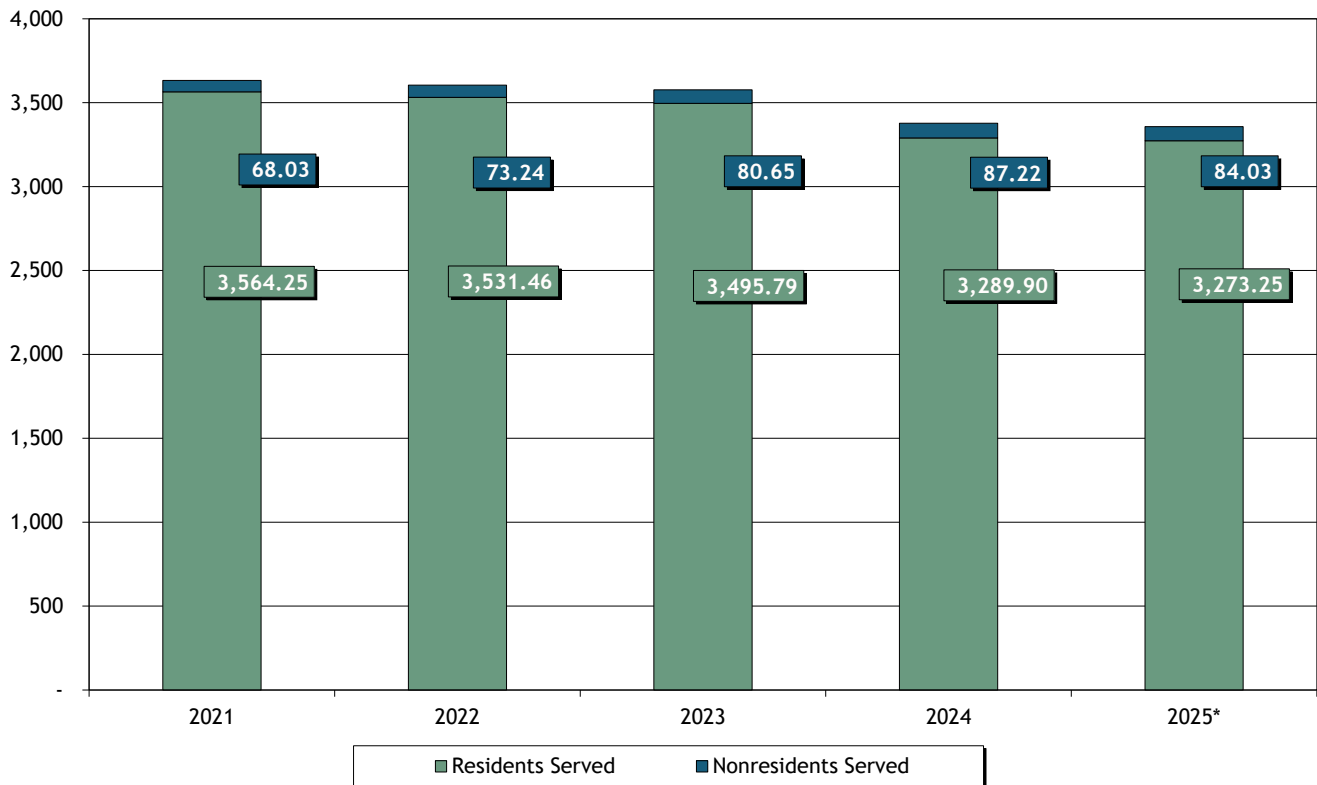
As the above chart indicates, resident ADM has, overall, decreased over the past five years, decreasing 231.34 ADM from 2021 to 2025. Resident ADM decreased from 2024 to 2025, by 15.15 ADM. The chart and graph on the next page apply weighting factors to ADM and include the effects of open enrollment.

Independent School District No. 656 Financial Analysis

Weighted Average Daily Membership Served/Pupil Units

	Pre-kindergarten and Handicapped Kindergarten				
	Kindergarten	Kindergarten	Elementary	Secondary	
2021 through 2025	1.000	1.000	1.000	1.200	
Pupil Units	2021	2022	2023	2024	2025*
Residents	4,831.61	4,711.53	4,661.89	4,594.12	4,575.35
Resident pupil units going elsewhere	(1,267.36)	(1,180.07)	(1,166.10)	(1,304.22)	(1,302.10)
Nonresident pupil units coming in	68.03	73.24	80.65	87.22	84.03
Total Pupil Units Served	3,632.28	3,604.70	3,576.44	3,377.12	3,357.28
Change from the Prior Year	(137.85)	(27.58)	(28.26)	(199.32)	(19.84)
Adjusted ADM	3,302.16	3,271.24	3,247.41	3,060.16	3,044.15

Students Served

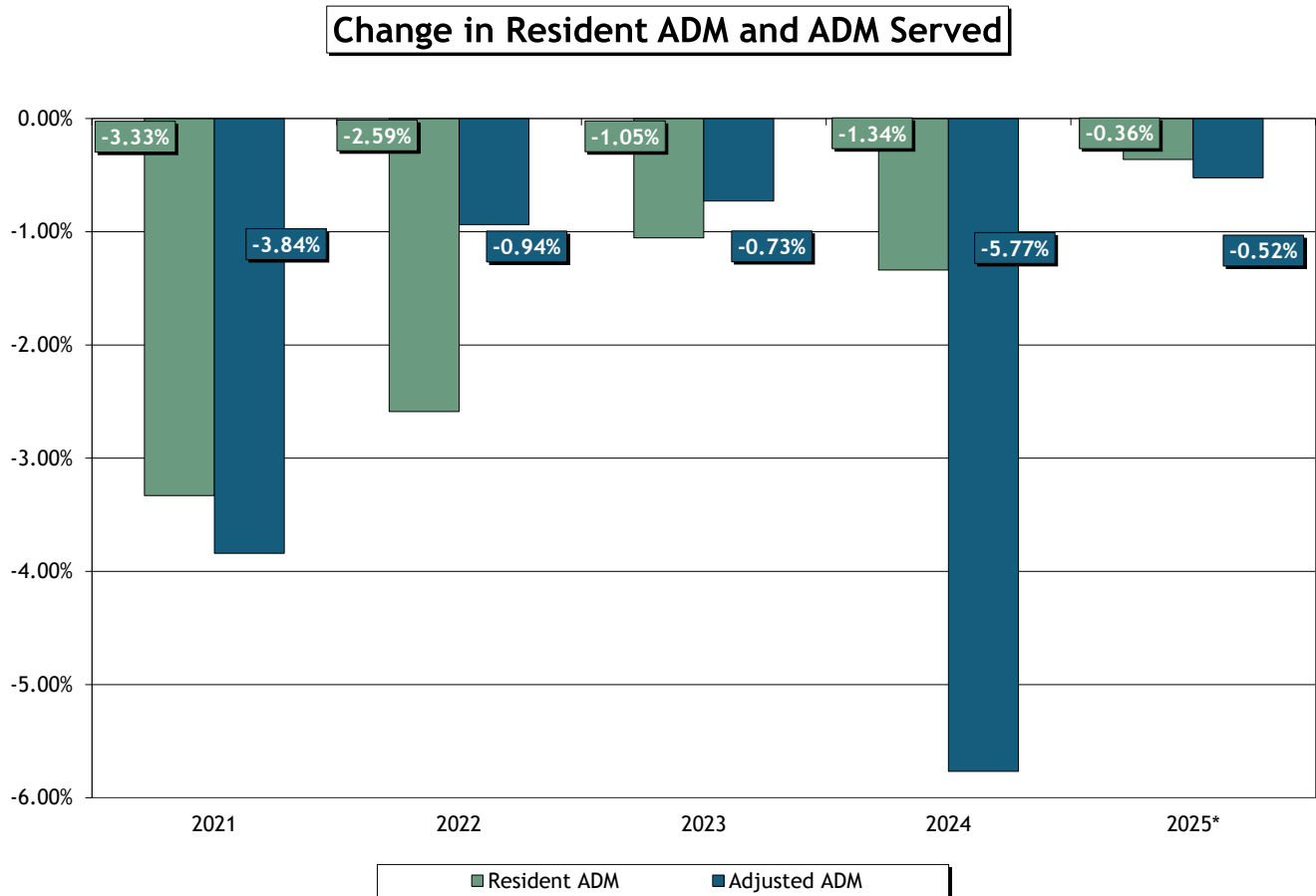


* Estimate

The District's pupil units served and ADM served have also decreased the past five years. This decrease is due to the District having a net loss on open enrollment numbers each year.

Independent School District No. 656
Financial Analysis

Average Daily Membership and ADM Served



* Estimate

When reviewing the five-year history, the District should be aware that student counts directly affect the amount of funding the District receives from the federal and state government.

As noted on the previous pages, ADM served and resident ADM decreased in all five of the years presented.

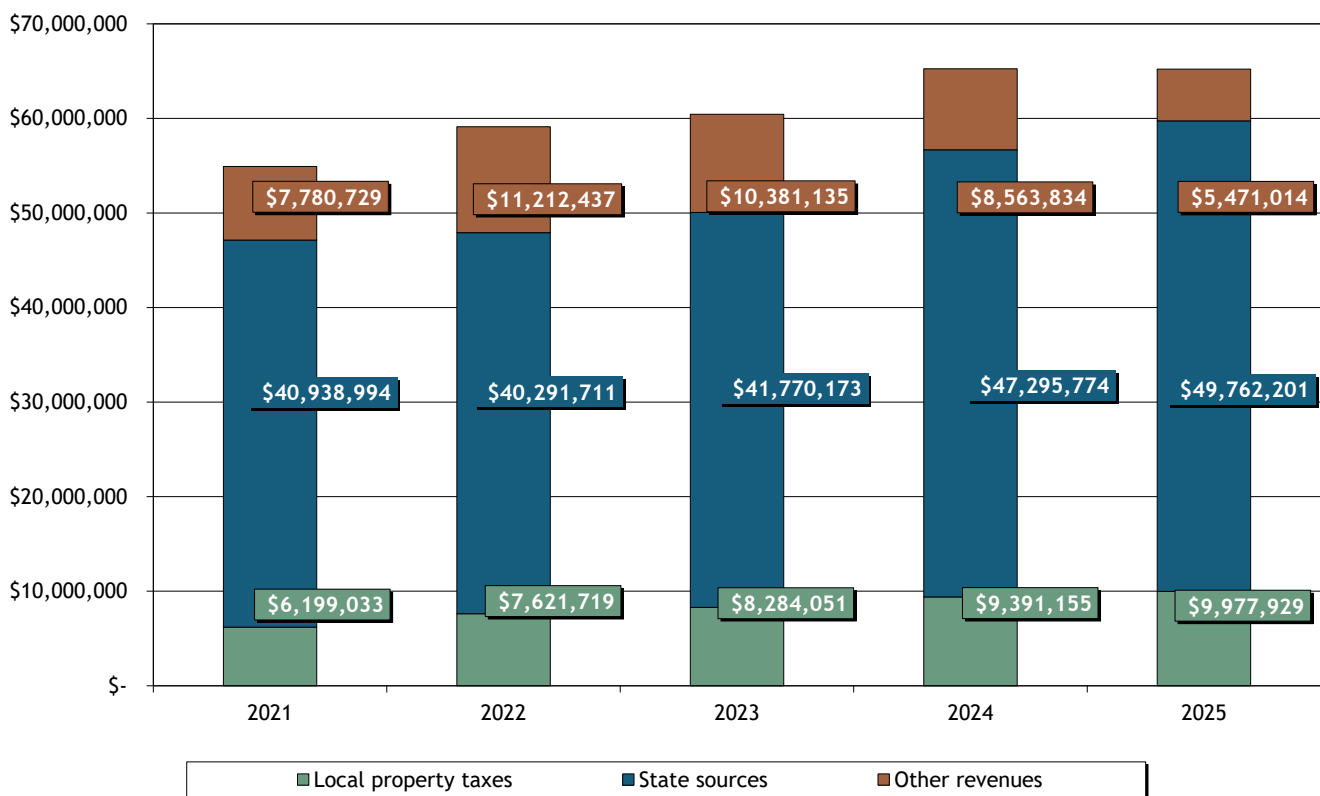
Independent School District No. 656 Financial Analysis

General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

	2021	2022	2023	2024	2025
Local property taxes	\$ 6,199,033	\$ 7,621,719	\$ 8,284,051	\$ 9,391,155	\$ 9,977,929
State sources	40,938,994	40,291,711	41,770,173	47,295,774	49,762,201
Other revenues	7,780,729	11,212,437	10,381,135	8,563,834	5,471,014
Total	\$ 54,918,756	\$ 59,125,867	\$ 60,435,359	\$ 65,250,763	\$ 65,211,144

General Fund Sources of Revenue



State sources represent 76.3% of the General Fund total revenue, with local taxpayers contributing 15.3% of the funding with federal and other sources making up the remaining 8.4%.

Overall, General Fund revenues decreased 0.1% or \$39,619 from 2024. Revenues from state sources increased \$2,466,427. This increase was due to the increase in formula allowance, partially offset by the decrease in enrollment. The District also saw an increase in special education revenue with the increase in special education students. Revenues from local property taxes increased \$586,774. This is the result of an increase in the General Fund's tax levy. Other revenue, which includes other local and county, federal and sales and other conversions of assets, decreased from the prior year by \$3,092,820 or 36.1% as a result of a decrease in federal funding related to COVID-19.

Independent School District No. 656 Financial Analysis

Revenues and Expenditures Per Student (ADM) Served

Revenues per student (ADM served) are summarized in the following table:

General Fund	2021*	2022*	2023*	2024*	2025**
Property taxes	\$ 1,828	\$ 2,171	\$ 2,394	\$ 2,868	\$ 3,126
Other local sources	447	506	626	837	750
State aid	12,198	11,815	12,358	14,781	15,591
Federal aid	1,907	2,871	2,526	1,926	964
Total General Fund Revenue	\$ 16,380	\$ 17,363	\$ 17,904	\$ 20,412	\$ 20,432

State-Wide*					
Property taxes	\$ 2,381	\$ 2,443	\$ 2,545	\$ 2,728	N/A
Other local sources	432	558	731	880	N/A
State aid	10,758	10,782	11,073	12,448	N/A
Federal aid	1,041	1,383	1,378	1,131	N/A
Total General Fund	\$ 14,612	\$ 15,166	\$ 15,727	\$ 17,187	N/A

Revenues per student for the General Fund increased 0.1% from 2024 to 2025 as students served decreased 0.1% and revenues decreased 0.1%.

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

	2021*	2022*	2023*	2024*	2025**
General Fund	\$ 16,537	\$ 17,360	\$ 17,810	\$ 19,532	\$ 20,063
Statewide Average - General Fund	14,167	15,010	15,730	16,649	Unavailable

* Source: *School District Profiles*

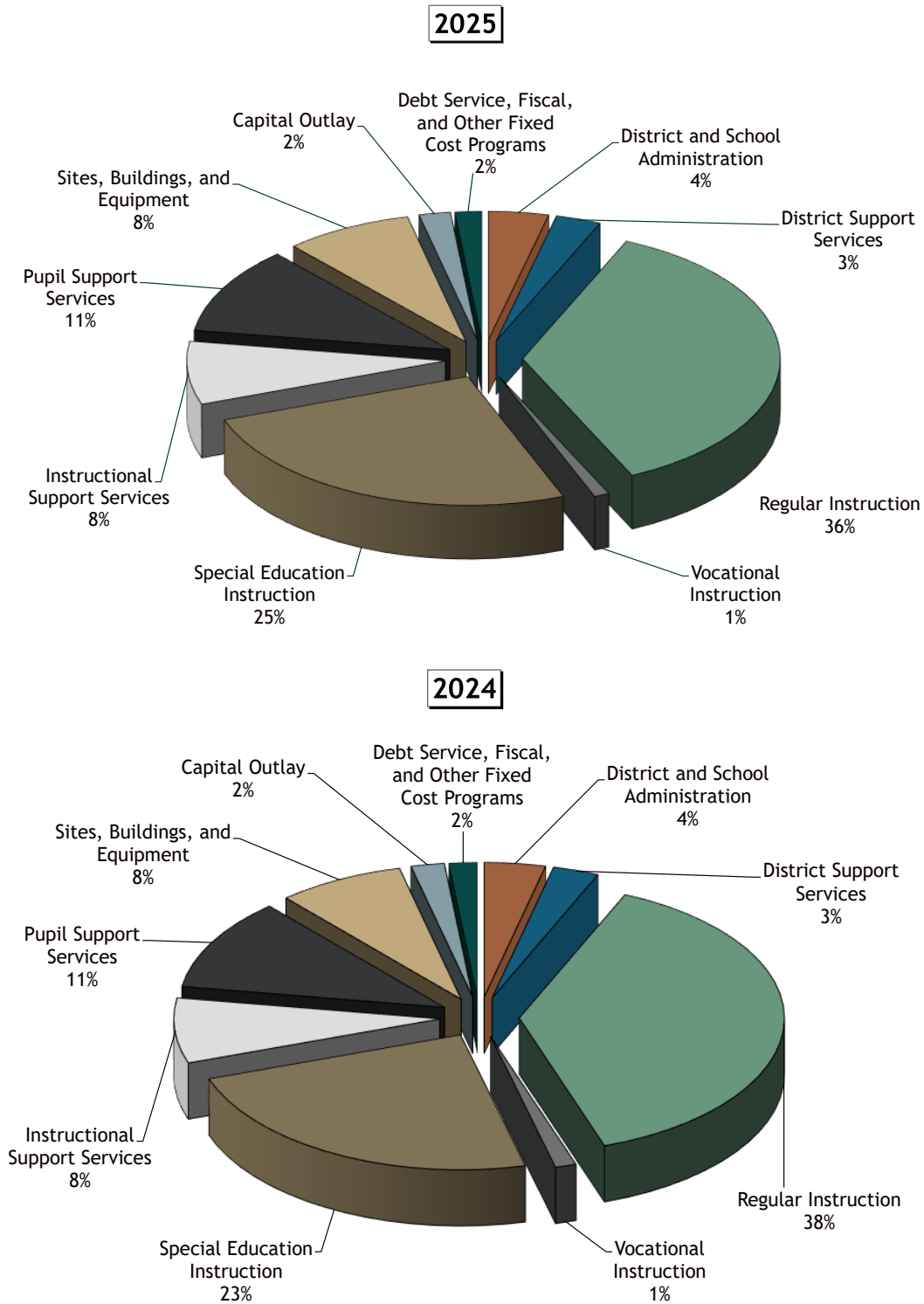
** Estimate

The District experienced an increase in expenditures per student (ADM served) from 2024 to 2025, which was the result of an increase in expenditures of 2.5% and a 0.1% decrease in the students served. The average 2024 expenditure per ADM served for districts in the 2,000-3,999 enrollment category was \$15,304 for the General Fund. As shown above, the District's revenues and expenditures per student served have consistently been higher than the state average for other districts. The District receives more federal and special education funding than comparable districts. Additional funding correlates directly to additional expenditures for federally restricted programs and special education as much of the funding is structured in a way that requires an equal match of funds reimbursed for funds expended.

Independent School District No. 656 Financial Analysis

General Fund Expenditures

The following graphs depict the percentage of expenditures by function in the General Fund. The allocation of expenditures between 2024 and 2025 has been very consistent from one year to the next.



Independent School District No. 656
Financial Analysis

General Fund Budget and Actual

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Over (under)
	Original	Final		
Revenues				
Local property taxes	\$ 9,736,634	\$ 9,736,634	\$ 9,977,929	\$ 241,295
Other local and county revenues	1,682,358	1,852,881	2,381,877	528,996
Revenue from state sources	48,282,303	48,490,851	49,762,201	1,271,350
Revenue from federal sources	2,491,819	3,634,975	3,077,620	(557,355)
Sales and other conversion of assets	5,900	5,208	11,517	6,309
Total revenues	62,199,014	63,720,549	65,211,144	1,490,595
Expenditures				
Administration	2,362,574	2,387,441	2,408,281	20,840
District support services	1,798,608	1,850,172	1,822,829	(27,343)
Regular instruction	23,480,015	24,360,649	23,319,209	(1,041,440)
Vocational instruction	782,289	742,591	608,058	(134,533)
Special education instruction	15,240,767	15,692,201	16,362,078	669,877
Instructional support services	5,046,588	5,177,467	5,069,550	(107,917)
Pupil support services	6,746,542	6,752,230	6,996,416	244,186
Sites and buildings	5,200,369	5,252,412	5,119,141	(133,271)
Fiscal and other fixed cost programs	315,000	315,000	327,234	12,234
Capital outlay	864,245	1,219,220	1,259,434	40,214
Debt service	737,417	737,417	742,365	4,948
Total expenditures	62,574,414	64,486,800	64,034,595	(452,205)
Excess of revenues over (under) expenditures	(375,400)	(766,251)	1,176,549	1,942,800
Other Financing Sources (Uses)				
Transfer out	-	-	(367)	(367)
Insurance Proceeds	-	-	2,149	2,149
Proceeds from the sale of capital assets	100,000	100,000	46,100	(53,900)
Total other financing sources (uses)	100,000	100,000	47,882	(52,118)
Net change in fund balance	\$ (275,400)	\$ (666,251)	\$ 1,224,431	\$ 1,890,682

General fund revenues were over budgeted amounts by \$1,490,595, or 2.3%. Revenues from state sources were over budget \$1,271,350. This variance was due to budgeting too low for General Education Aid and Special Education Aid. Other local and county revenues were over budget \$528,996 due to budgeting conservatively for interest earnings. Revenues from federal sources were under budget due to timing of spending for the Title I and CLSD grants. Other revenue sources were relatively consistent with budgeted amounts.

General fund expenditures were under budget \$452,205 or 0.7%. Regular instruction was \$1,041,440 under budget as a result of changes in staffing needs. Special education was over budget \$669,877 due to additional positions hired as a result of the service needs of students. Other expenditure sources were relatively consistent with budgeted amounts.

Independent School District No. 656

Financial Analysis

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,	2021	2022	2023	2024	2025
Revenues	\$ 54,918,756	\$ 59,125,867	\$ 60,435,359	\$ 65,250,763	\$ 65,211,144
Expenditures	56,012,561	59,422,617	60,117,720	62,446,882	64,034,595
Excess of revenues over (under) expenditures	(1,093,805)	(296,750)	317,639	2,803,881	1,176,549
Lease Proceeds	567,965	305,547	-	-	-
Insurance Recovery	-	-	-	-	2,149
Less transfers out	-	-	-	(285)	(367)
Sale of Equipment	-	93,432	99,929	99,754	46,100
Fund balance, July 1	7,991,557	7,465,717	7,567,946	7,985,514	10,888,864
Fund Balance, June 30	7,465,717	7,567,946	7,985,514	10,888,864	12,113,295
Nonspendable for					
Prepaid items	\$ 55,575	\$ 43,056	\$ 8,411	\$ 20,370	\$ 394,206
Inventory	-	-	-	24,372	-
CVSEC Long-term receivable	-	-	318,827	318,827	318,827
Restricted for					
Student Activities	92,785	105,172	108,719	114,528	115,101
Staff Development	45,387	54,917	44,539	45,895	32,751
Literacy Incentive Aid	-	-	-	67,403	4,171
American Indian Education Aid	-	-	-	-	33,857
Operating Capital	423,872	300,670	306,646	386,910	569,367
Safe Schools Levy	27,665	39,716	149,335	139,182	72,330
Area Learning Center/Targeted Service	-	-	481,722	753,842	967,929
Gifted and Talented	-	-	-	15,244	28,293
School Library Aid	-	-	-	52,666	72,602
LTFM	(419,131)	(6,473)	9,156	-	173,896
Basic Skills Programs	-	-	-	-	263,010
Teacher Comp Read Act	-	-	-	-	112,038
Literacy Aid	-	-	-	-	124,094
Assigned for					
Athletic Equipment	112,186	-	-	-	-
CVSEC Long-term receivable	318,827	318,827	-	-	-
Unassigned	6,808,551	6,712,061	6,558,159	8,949,625	8,830,823
Fund Balance, June 30	\$ 7,465,717	\$ 7,567,946	\$ 7,985,514	\$ 10,888,864	\$ 12,113,295

As previously discussed, General Fund revenue increased 0.1% from 2024. General Fund expenditures increased 2.5% over the same period.

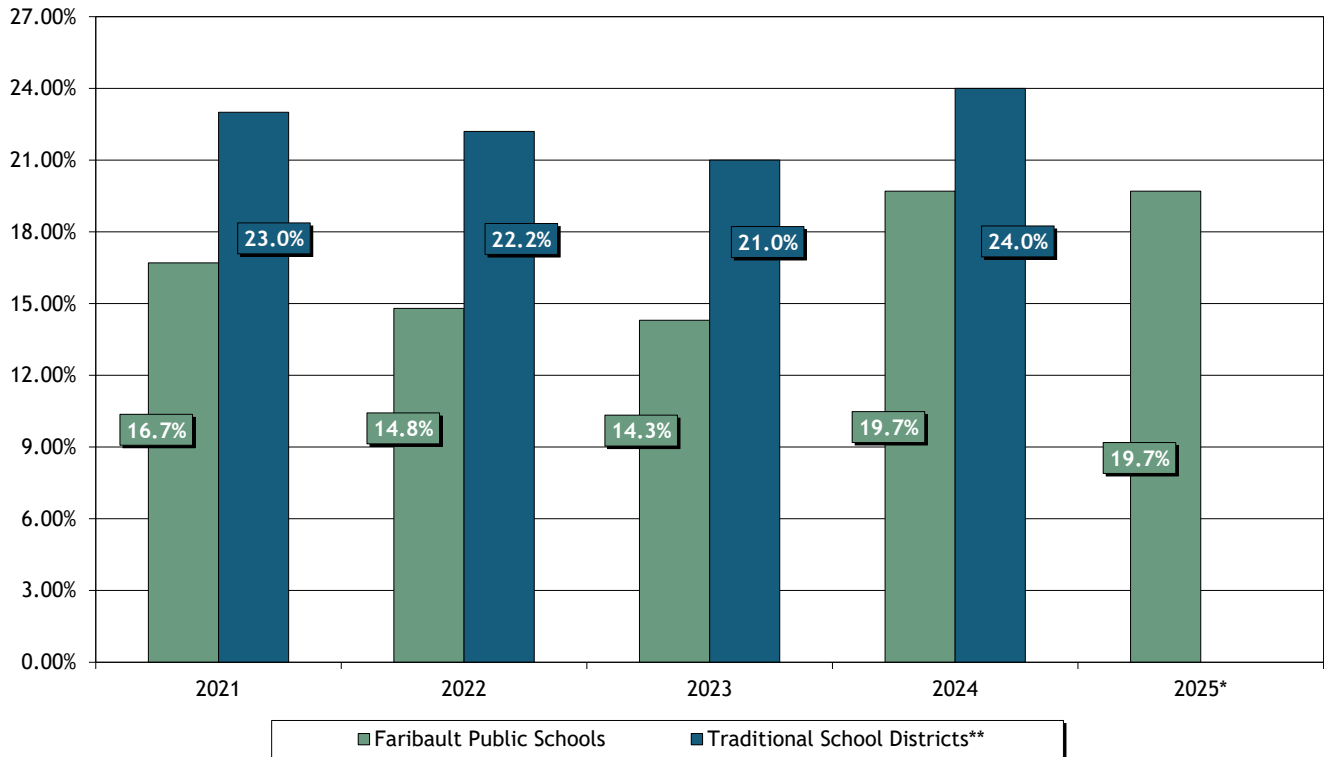
At June 30, 2025, the District's unassigned fund balance of \$8,830,823 represented 18.8% of the annual budgeted expenditures. The District's target General Fund balance is a minimum of 9.5% of the annual budgeted expenditures.

Independent School District No. 656 Financial Analysis

General Fund Financial Health

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

Unrestricted Fund Balance as a Percent of Unrestricted Expenditures



* Figures for 2025 are not available for state-wide averages. District percentage obtained from MDE Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Report.

** Information was obtained from MDE web site report *Fiscal Year 2021-2024 General Fund Unreserved Balance*.

The graph above details total unrestricted fund balance as a percentage of unrestricted expenditures. The District's unrestricted fund balance as a percentage of unrestricted expenditures is lower than the average of all Minnesota school districts for 2021 through 2024. Unrestricted fund balance as percent of unrestricted expenditures has increased from 2021 to 2025.

Independent School District No. 656
Financial Analysis

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,	2021	2022	2023	2024	2025
Revenues	\$ 2,075,549	\$ 3,235,257	\$ 2,528,956	\$ 2,952,905	\$ 2,759,550
Expenditures	2,092,370	2,255,456	2,272,035	2,697,514	2,948,395
Excess of revenues over (under) expenditures	(16,821)	979,801	256,921	255,391	(188,845)
Plus transfers in	-	-	-	285	367
Fund balance, July 1	643,460	626,639	1,606,440	1,863,361	2,119,037
Fund Balance, June 30	\$ 626,639	\$ 1,606,440	\$ 1,863,361	\$ 2,119,037	\$ 1,930,559

Revenues decreased \$193,355 from 2024 to 2025, while expenditures increased \$250,881 over the same period. The decrease in revenues is primarily due to the decrease in meals served. The increase in expenditures was as a result of contract increases and equipment purchases, including new fume hoods in five buildings. The 2025 activity in the Food Service Fund resulted in a decrease in fund balance of \$188,895 to \$1,930,559. Ending fund balance in 2025 represents 65.5% of expenditures, or approximately six months of expenditures based on a nine-month operating year. The MDE recommends districts maintain a food service net cash fund balance not to exceed six months of expenditures, based on a nine-month operating year.

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,	2021	2022	2023	2024	2025
Revenues	\$ 3,135,596	\$ 3,348,689	\$ 3,507,903	\$ 4,391,006	\$ 5,844,562
Expenditures	2,831,777	3,478,617	3,559,265	4,193,235	5,570,102
Excess of revenues over (under) expenditures	303,819	(129,928)	(51,362)	197,771	274,460
Fund balance, July 1	849,602	1,153,421	1,023,493	972,131	1,169,902
Fund Balance, June 30	\$ 1,153,421	\$ 1,023,493	\$ 972,131	\$ 1,169,902	\$ 1,444,362
Components of fund balance					
Restricted					
Community education	\$ 581,686	\$ 466,731	\$ 417,422	\$ 550,245	\$ 759,595
Early childhood and family education	117,084	186,111	192,083	197,824	165,157
School readiness	220,169	220,703	205,966	225,781	248,949
Adult basic education	222,639	148,314	147,101	156,476	208,450
Community service	11,843	1,634	9,559	39,576	62,211
Total Fund Balance, June 30	\$ 1,153,421	\$ 1,023,493	\$ 972,131	\$ 1,169,902	\$ 1,444,362

Community Service Fund revenues exceeded expenditures in 2025. Revenues increased \$1,453,556 in 2025 due to an increase in participation in various programs as well as an increase in state and federal grants. Expenditures in 2025 increased \$1,376,867 due to the increase in grant related activity. All categories of restricted fund balance remained positive at year end.

Independent School District No. 656 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. 656
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. 656
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 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. 656
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.

**Independent School District No. 656
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.