



**Independent School District No. 877  
Buffalo-Hanover-Montrose, Minnesota**

**Communications Letter**

**June 30, 2025**

**Independent School District No. 877**  
**Table of Contents**

Report on Matters Identified as a Result of the Audit of the Basic Financial Statements	1
Required Communication	3
Financial Analysis	8
Legislative Summary	20
Emerging Issues	22



**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. 877  
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, 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.

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

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

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 3, 2025, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the School Board, management, others within the Entity, 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  
November 3, 2025

**Independent School District No. 877**  
**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 with respect to the other information in documents containing the audited basic financial statements and auditor's report does not extend beyond the basic financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited, and we do not express an opinion or provide any assurance on it.

**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. 877  
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 during our planning procedures:

- **Improper Revenue Recognition of State Aids and Property Taxes** - Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the government's operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- **Management Override Through Journal Entries** - Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- **Misappropriation of Assets through Accounts Payable** - Due to employee turnover, there is a risk of unauthorized transactions being made through the accounts payable process.
- **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.
- **Capital Assets Valuation** - Capital assets and related depreciation are 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.

**Independent School District No. 877  
Required Communication**

**Significant Risks (Continued)**

- 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:

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

General Education and Special Education Aid - General Education Aid is an estimate until ADM values are final. Since this is normally not done until after the reporting deadline, 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 Valuation - The balance is an estimate based on assumptions of hours more likely than not to be used by employees while employed by the District or paid out upon separation of employment.

**Independent School District No. 877  
Required Communication**

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

*Significant Accounting Estimates and Related Disclosures (Continued)*

We evaluated the key factors and assumptions used to develop the accounting estimates 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.

**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.

Management did not identify, and we did not notify them of any uncorrected basic financial statement misstatements.

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.



**Independent School District No. 877**  
**Required Communication**

**Other Significant Matters, Findings, or Issues**

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

**Other Information Included in Annual Reports**

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

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

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

We were not engaged to report on the other information accompanying the basic 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.

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. 877**  
**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. 877 Financial Analysis

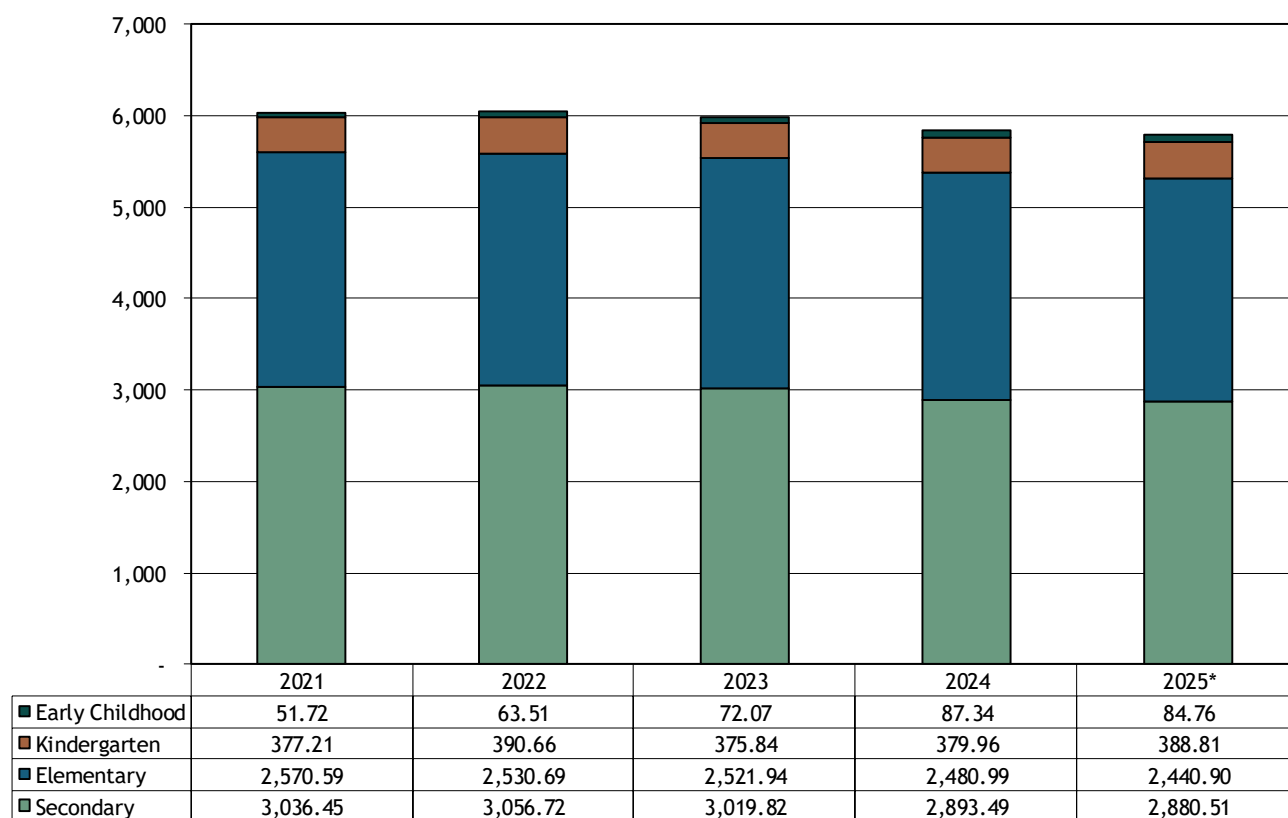
### Resident Average Daily Membership and Pupil Units

Approximately 78% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans.

The following table and graph summarizes resident average daily membership (ADM) of the District for the past five years ended June 30:

ADM	2021	2022	2023	2024	2025*
Early Childhood	51.72	63.51	72.07	87.34	84.76
Kindergarten	377.21	390.66	375.84	379.96	388.81
Elementary	2,570.59	2,530.69	2,521.94	2,480.99	2,440.90
Secondary	3,036.45	3,056.72	3,019.82	2,893.49	2,880.51
<b>Total Resident ADM</b>	<b>6,035.97</b>	<b>6,041.58</b>	<b>5,989.67</b>	<b>5,841.78</b>	<b>5,794.98</b>

**Resident ADM**



\* Estimate as of October 13, 2025

# **Independent School District No. 877** **Financial Analysis**

## **Resident Average Daily Membership and Pupil Units (Continued)**

The chart and graph on the previous page illustrate the fluctuations in resident ADM experienced by the District over the past five years. Total resident ADM decreased 4.0% since 2021 and decreased 0.8% from 2024.

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table below.

Pupil Units Weighting				
	Early Childhood	Kindergarten	Elementary Grades 1-6	Secondary Grades 7-12
2021-2025	1.000	1.000	1.000	1.200

The pupil units weighting (PUN) served table below and graph on the following page, converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

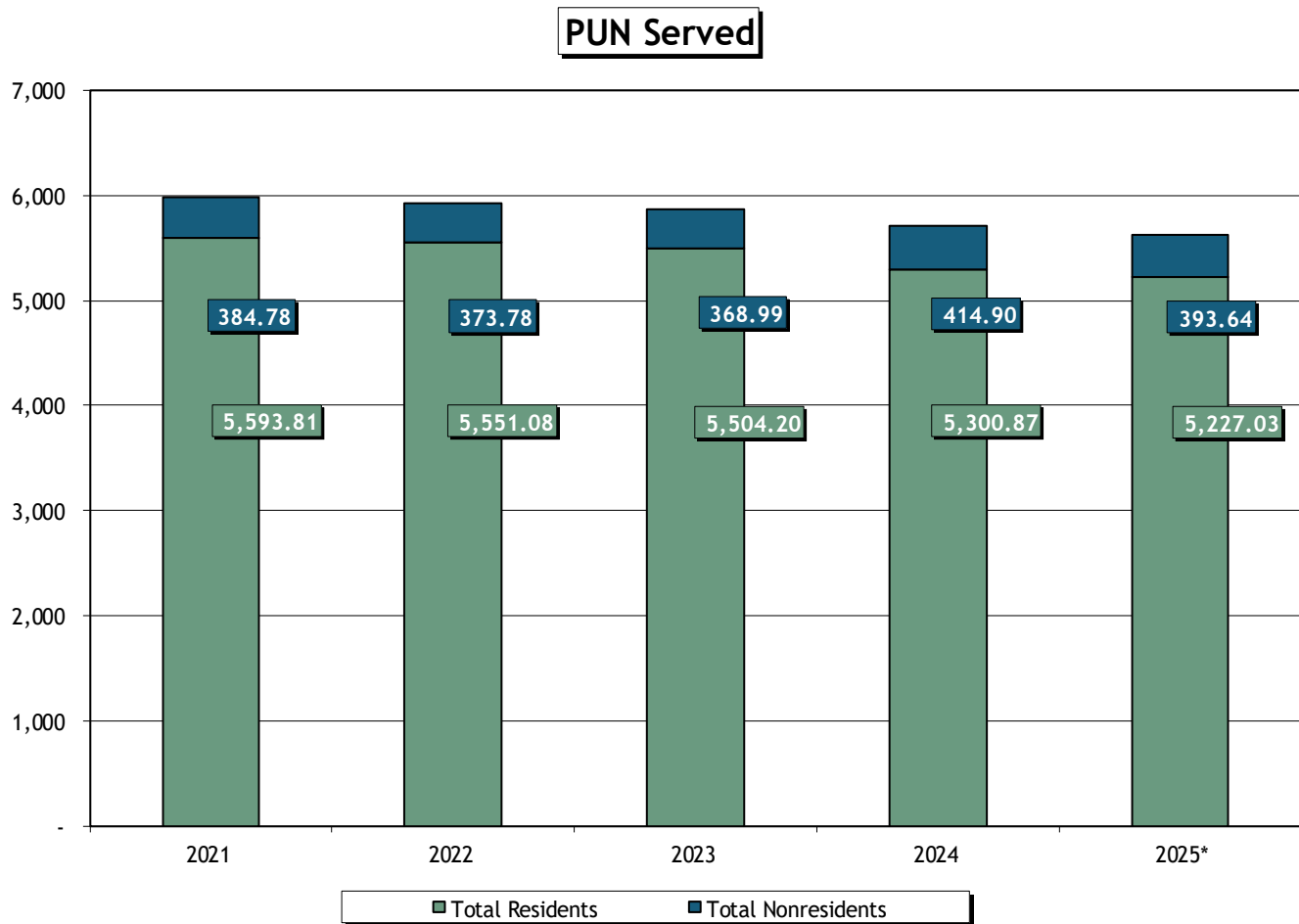
PUN	2021	2022	2023	2024	2025*
Residents	6,643.07	6,652.95	6,593.62	6,420.47	6,371.11
Resident PUN loss	(1,049.26)	(1,101.87)	(1,089.42)	(1,119.60)	(1,144.08)
Nonresident PUN gain	384.78	373.78	368.99	414.90	393.64
<b>Total PUN Served</b>	<b>5,978.59</b>	<b>5,924.86</b>	<b>5,873.19</b>	<b>5,715.77</b>	<b>5,620.67</b>

\* Estimate as of October 13, 2025

Resident PUN decreased from 2024 by 49.4 units. PUN served has varied from year-to-year based on open enrollment. From 2024 to 2025, total PUN served decreased 95.1 units as a result of the decrease in resident PUN and a higher net loss due to open enrollment.

Independent School District No. 877  
Financial Analysis

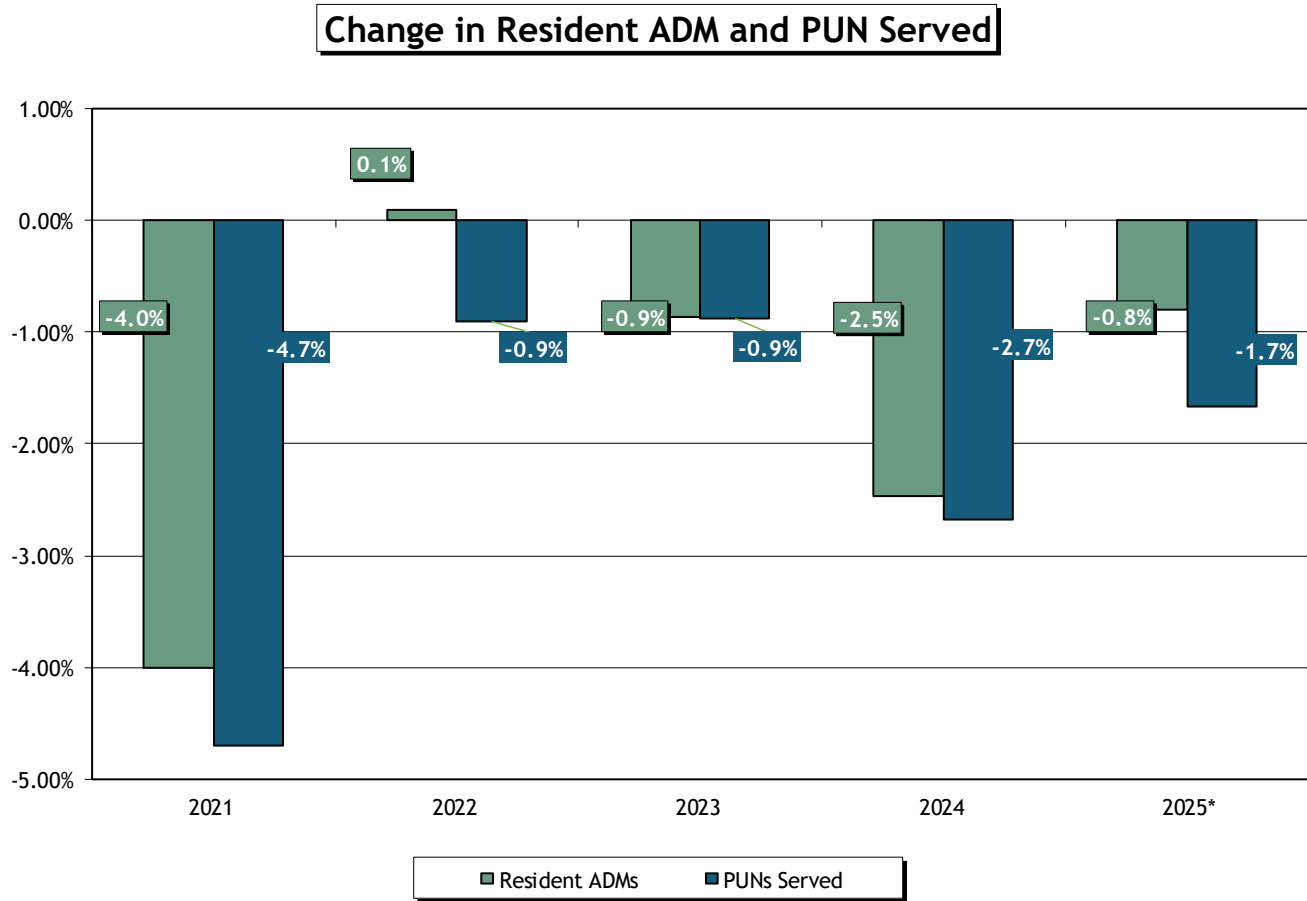
Pupil Units Weighting Served



\* Estimate as of October 13, 2025

Independent School District No. 877  
Financial Analysis

Pupil Units Weighting Served (Continued)



\* Estimate as of October 13, 2025

# Independent School District No. 877 Financial Analysis

## General Fund Revenues Budget and Actual

The graph below outlines the District's final budget and actual results for the General Fund.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 12,773,541	\$ 12,674,582	\$ 12,649,261	\$ (25,321)
Other local revenues	3,088,802	3,358,881	3,529,618	170,737
Revenue from state sources	60,867,398	62,450,884	63,539,418	1,088,534
Revenue from federal sources	2,463,840	1,939,298	2,008,888	69,590
Sales and other conversion of assets	22,000	23,335	25,491	2,156
Total revenues	79,215,581	80,446,980	81,752,676	1,305,696
<b>Expenditures</b>				
Administration	2,502,910	2,542,294	2,542,879	585
District support services	2,036,664	2,017,642	1,892,807	(124,835)
Regular instruction	36,139,381	35,411,637	35,626,360	214,723
Vocational instruction	1,848,103	1,686,519	1,730,413	43,894
Special education instruction	17,484,639	17,488,424	17,393,483	(94,941)
Instructional support services	5,700,672	5,663,651	4,464,159	(1,199,492)
Pupil support services	7,268,922	7,749,789	7,655,729	(94,060)
Sites and buildings	9,189,319	8,585,397	8,083,008	(502,389)
Fiscal and other fixed cost programs	363,638	360,869	363,935	3,066
Debt service	123,843	107,843	122,842	14,999
Total expenditures	82,658,091	81,614,065	79,875,615	(1,738,450)
Excess of revenues over (under) expenditures	(3,442,510)	(1,167,085)	1,877,061	3,044,146
<b>Net Other Financing Sources</b>	1,500	1,500	4,546	3,046
<b>Net Change in Fund Balance</b>	\$ (3,441,010)	\$ (1,165,585)	\$ 1,881,607	\$ 3,047,192

The Board approved a final General Fund revenue budget of \$80,446,980. With actual revenues coming in at \$81,752,676, the final budget produced a variance of 1.6%, or \$1,305,696. The largest variance was in revenue from state sources, which was over budget due to general education aid and special education aid exceeding budgeted amounts. General education aid was over budget as final student counts were 70 higher than anticipated. Special education aid was budgeted at 95% as the State was prorating this aid at the time of the final revised budget.

In total, General Fund expenditures were under budget 2.1%, or \$1,738,450. Instructional support expenditures were under budget due to budgeting for curriculum and development costs here while actual expenditures were coded to other programs as well as eligible technology expenditures being purchased out of the Building Construction Fund after the budget was adopted. Sites and buildings expenditures were under budget due to the unpredictability of project timelines and plan changes.

# Independent School District No. 877 Financial Analysis

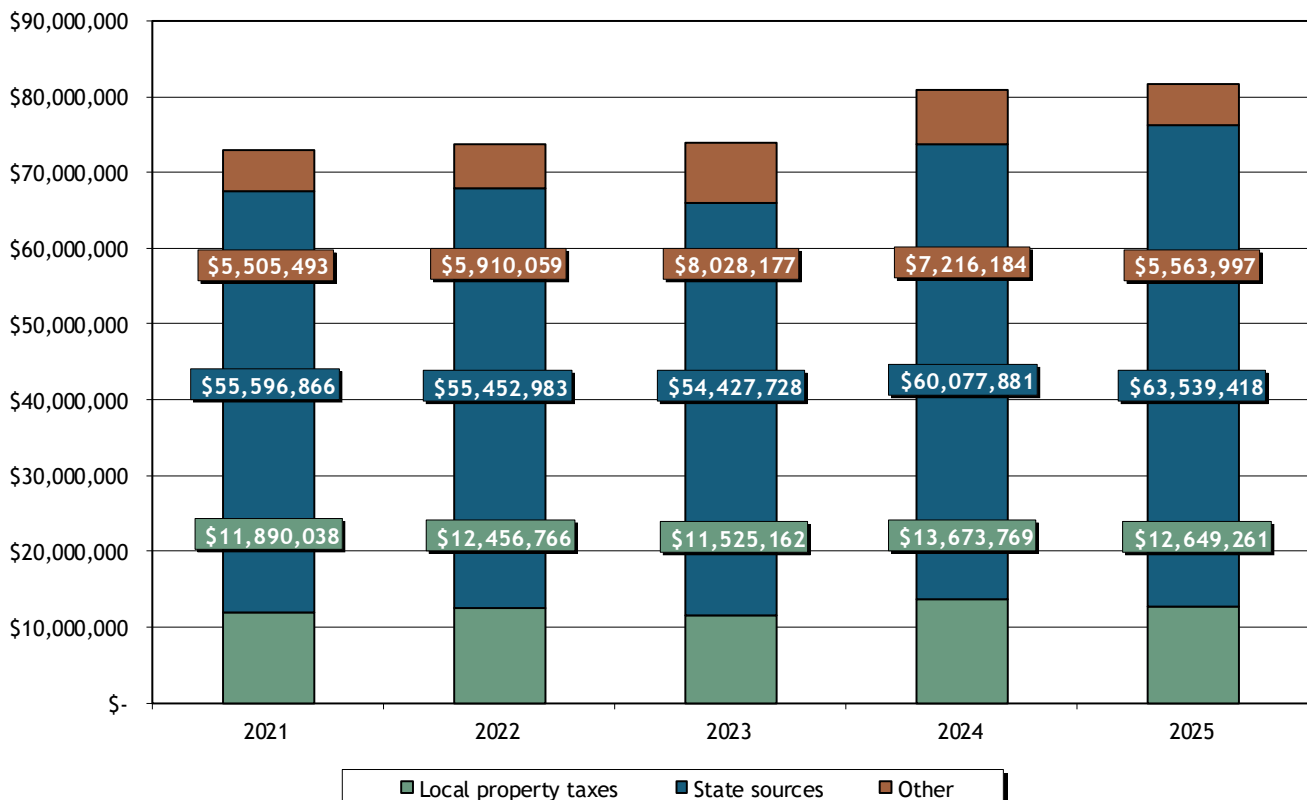
## General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows for the last five years:

	2021	2022	2023	2024	2025
Local property taxes	\$ 11,890,038	\$ 12,456,766	\$ 11,525,162	\$ 13,673,769	\$ 12,649,261
State sources	55,596,866	55,452,983	54,427,728	60,077,881	63,539,418
Other	5,505,493	5,910,059	8,028,177	7,216,184	5,563,997
<b>Total</b>	<b>\$ 72,992,397</b>	<b>\$ 73,819,808</b>	<b>\$ 73,981,067</b>	<b>\$ 80,967,834</b>	<b>\$ 81,752,676</b>

Total General Fund revenue increased \$784,842, or 1.0%, from 2024 to 2025. Local property taxes decreased by \$1,024,508 with a decrease in the General Fund levy amount due to decreased student counts and a decrease in the long-term facilities maintenance levy. Other sources decreased \$1,652,187 due to decreased spending of federal pandemic relief funding as grants expired. State revenue sources increased by \$3,461,537 due to an increase in the special education entitlement with higher overall special education costs, an increase in long-term facilities maintenance aid allocated to the General Fund as bonds were paid off, and new aids under the READ Act.

## General Fund Sources of Revenue





## Independent School District No. 877 Financial Analysis

### Revenues and Expenditures Per ADM Served

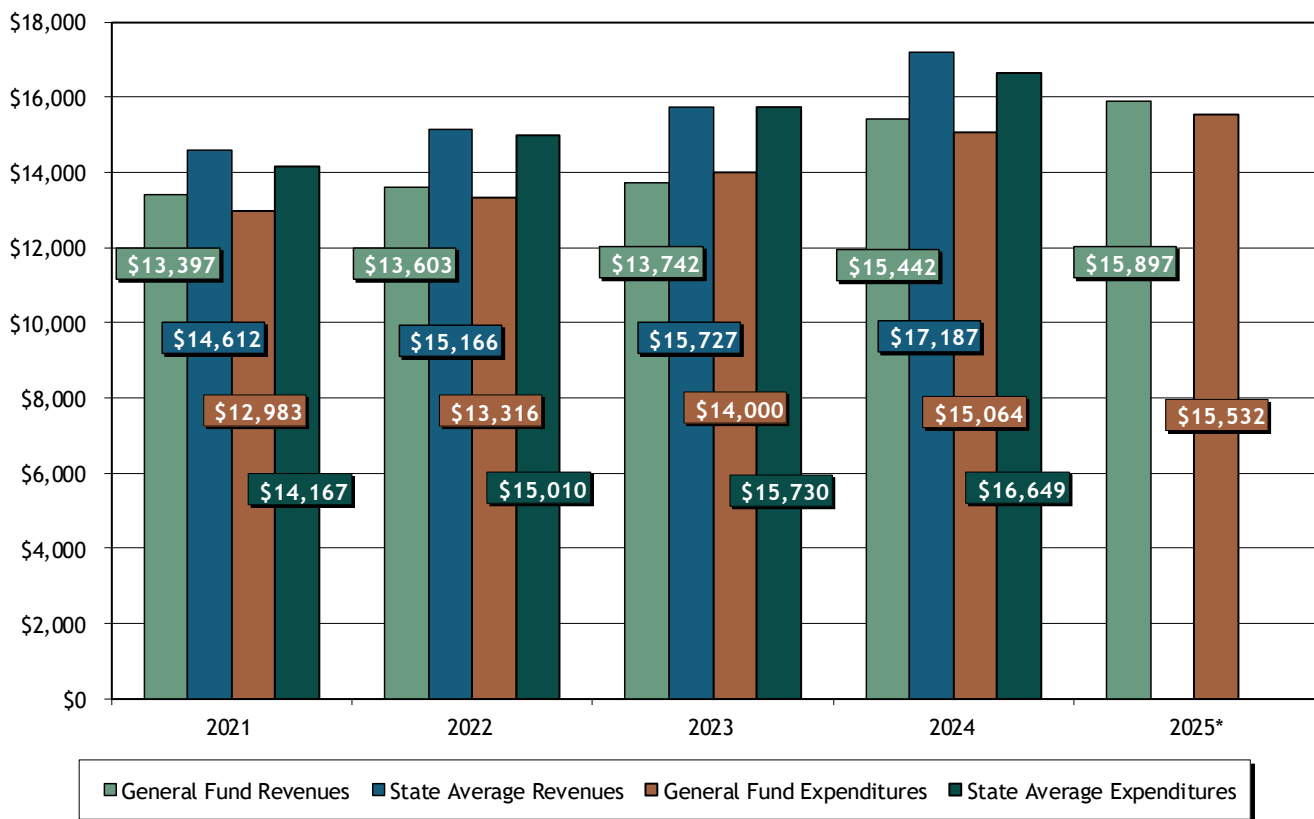
General Fund revenues per students (ADM) served are summarized in the following table and graph:

	2021	2022	2023	2024	2025*
General Fund	\$ 13,397	\$ 13,603	\$ 13,742	\$ 15,442	\$ 15,897
General Fund state average	14,612	15,166	15,727	17,187	N/A

General Fund expenditures per students (ADM) served are summarized in the following table and graph.

	2021	2022	2023	2024	2025*
General Fund	\$ 12,983	\$ 13,316	\$ 14,000	\$ 15,064	\$ 15,532
General Fund state average	14,167	15,010	15,730	16,649	N/A

### Revenues and Expenditures Per ADM Served



2021 through 2024 amounts obtained from the Minnesota Department of Education Financial Profile Reports.

\* 2025 averages not yet available.

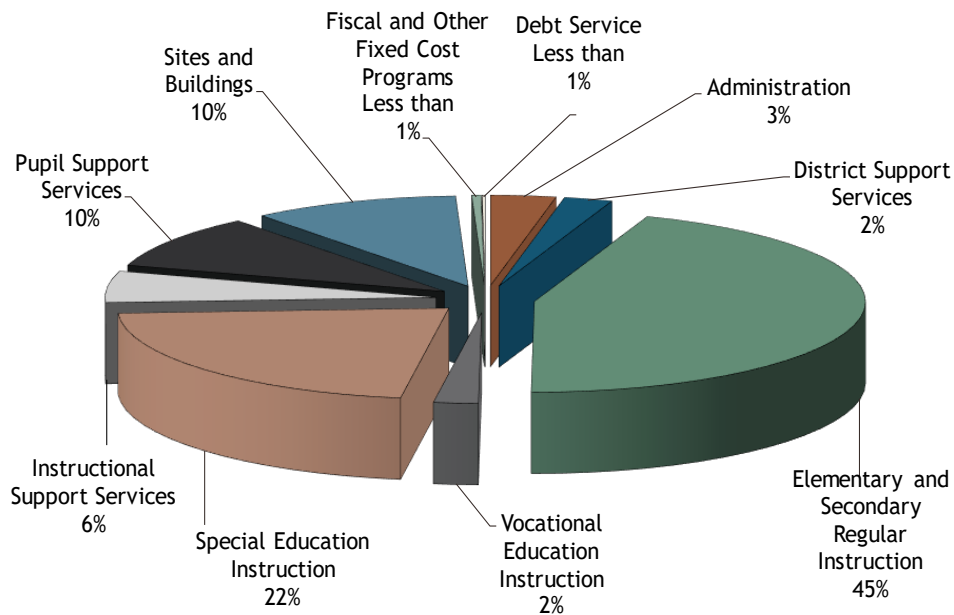
Revenues per ADM have consistently been below the state average, receiving less in property tax revenue per ADM as well as less state and federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less per ADM than the state average.

## Independent School District No. 877 Financial Analysis

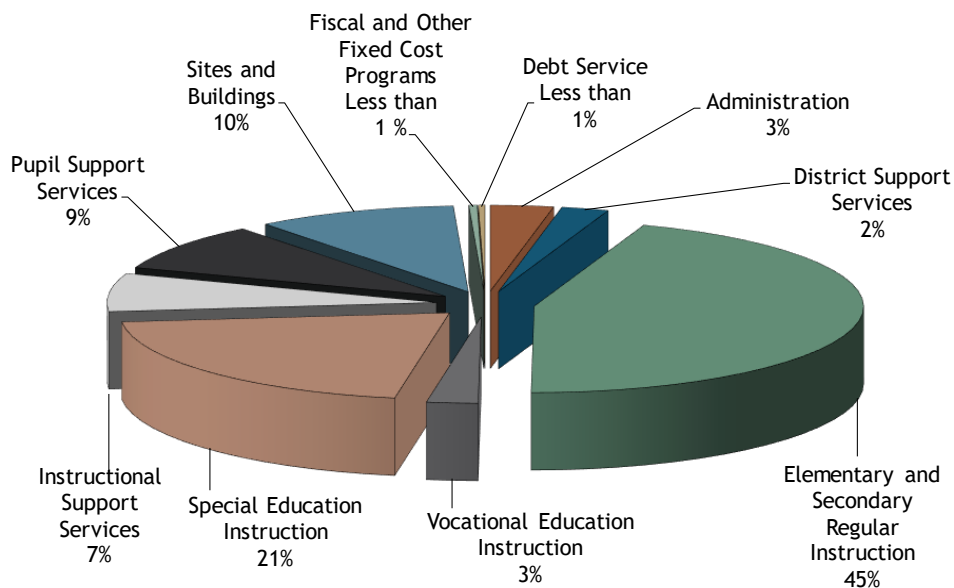
### General Fund Expenditures

The graphs below depict the percentage of expenditures by function in the General Fund for years 2024 and 2025. Expenditures increased by \$886,220, or 1.1%, from 2024 to 2025, and the allocation of expenditures remained very consistent. Education programs and instructional/pupil support made up 85% of the District's expenditures, for 2025 and 2024. Just 3% of expenditures were attributable to administration and 2% attributed to district support services for 2025 and 2024.

**General Fund Expenditures 2025**



**General Fund Expenditures 2024**



## Independent School District No. 877 Financial Analysis

### General Fund Operations

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

	2021	2022	2023	2024	2025
Revenues	\$ 72,992,397	\$ 73,819,808	\$ 73,981,067	\$ 80,967,834	\$ 81,752,676
Expenditures	70,812,639	72,394,748	75,442,218	78,989,395	79,875,615
Excess of revenues over (under) expenditures	2,179,758	1,425,060	(1,461,151)	1,978,439	1,877,061
Transfers/other financing sources and uses	86,919	136,728	76,621	12,211	4,546
Fund balance, July 1	15,767,382	18,034,059	19,595,847	18,211,317	20,201,967
<b>Fund Balance, June 30</b>	<b>\$ 18,034,059</b>	<b>\$ 19,595,847</b>	<b>\$ 18,211,317</b>	<b>\$ 20,201,967</b>	<b>\$ 22,083,574</b>

Components					
Unassigned	\$ 10,013,894	\$ 10,750,570	\$ 10,418,889	\$ 11,803,666	\$ 12,331,324
Nonspendable	607,010	808,200	706,309	821,258	1,128,099
Reserved/restricted for					
Student activities	21,121	38,012	42,337	45,429	41,773
Student support personnel aid	-	-	-	-	10,014
Literacy aid	-	-	-	-	177,816
Q Comp	-	-	-	-	188,663
Operating capital	1,182,366	1,497,207	1,749,715	1,940,960	1,680,637
Literacy incentive aid	-	-	-	182,371	233,382
American Indian education aid	-	-	-	8,407	7,041
Long-term facility maintenance	347,494	624,421	(198,064)	377,945	870,417
Medical assistance	482,065	488,888	326,694	379,846	496,996
Committed/assigned for					
Separation benefits	2,187,804	2,374,820	2,576,411	2,890,038	3,209,069
Student activities - fund 9	383,104	351,218	428,932	584,869	607,249
Q Comp	37,353	133,344	25,072	-	-
Capital	1,385,317	1,030,697	853,208	428,147	809,390
Carryover	1,201,806	1,421,168	1,352,588	759,431	320,186
Dental insurance	184,725	77,302	(70,774)	(20,400)	(28,482)
<b>Total</b>	<b>\$ 18,034,059</b>	<b>\$ 19,595,847</b>	<b>\$ 18,211,317</b>	<b>\$ 20,201,967</b>	<b>\$ 22,083,574</b>

Total General Fund revenue increased 1.0% from 2024 to 2025 as previously discussed.

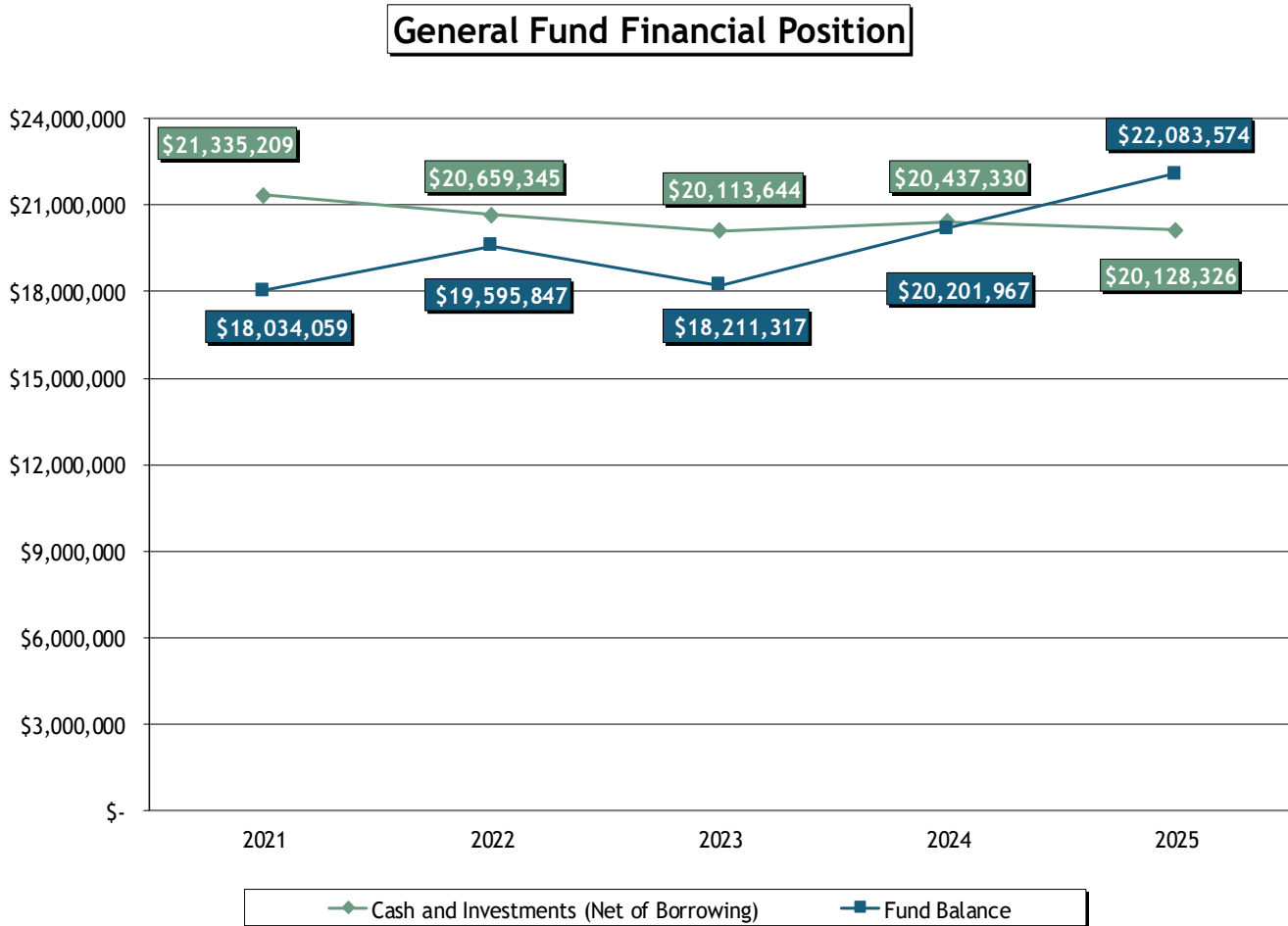
Total General Fund expenditures increased 1.1% from 2024 to 2025. This increase was across most programs primarily due to contractual increases in salaries and benefits. The District also added special education positions as students needing services continues to grow.

Revenues exceeded expenditures during 2025, resulting in an increase in total fund balance of \$1,881,607. The increase was reported across most fund balance components. Reserved/restricted fund balances, which are required to be spent on specific purposes by an external party, increased \$771,781 in total. Committed and assigned fund balances, which are set aside for specific purposes internally, increased \$275,327 in total. Unassigned fund balance increased \$527,658.

Unassigned fund balance as of June 30, 2025, amounted to \$12,331,324. This amount equals 15.4% of General Fund expenditures based on 2025 spending levels.

Independent School District No. 877  
Financial Analysis

General Fund Operations (Continued)



This graph outlines the cash and investments (net of borrowing) and the fund balance for the General Fund for the past five years. A healthy fund balance allows the District to maintain a positive operating cash position when expenditures are timed prior to the receipt of significant revenues, including state aid and local property tax levies. At year-end when expenditure needs are significant and revenue receipts are delayed until subsequent to year-end, an increased positive fund balance position reduces the reliance on short-term borrowing.

The state pays out 90% of its aids during the fiscal year, with the remaining 10% coming after year-end.

## Independent School District No. 877 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	\$ 3,574,635	\$ 4,844,434	\$ 3,905,749	\$ 4,987,106	\$ 4,851,574
Expenditures, excluding OPEB	3,133,990	3,533,402	3,585,741	4,376,501	5,090,763
Excess of revenues over (under) expenditures	440,645	1,311,032	320,008	610,605	(239,189)
Transfers/other financing sources	1,310	14,116	-	-	-
Fund balance, July 1	930,425	1,372,380	2,697,528	3,017,536	3,628,141
<b>Fund Balance, June 30</b>	<b>\$ 1,372,380</b>	<b>\$ 2,697,528</b>	<b>\$ 3,017,536</b>	<b>\$ 3,628,141</b>	<b>\$ 3,388,952</b>

In 2025, expenditures exceeded revenues by \$239,189. Revenues decreased \$135,532 due to less meals served and the end of supply chain assistance funding. Expenditures increased \$714,262 due to an increase in wages and benefits with contract increases and increase number of employees, as well as significant one-time food service equipment purchases.

### 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	\$ 3,014,480	\$ 3,794,664	\$ 4,160,988	\$ 4,684,255	\$ 4,012,591
Expenditures, excluding OPEB	3,098,360	3,467,083	3,752,012	4,099,179	4,190,602
Excess of revenues over (under) expenditures	(83,880)	327,581	408,976	585,076	(178,011)
Transfers/other financing sources	-	-	-	266	-
Fund balance, July 1	(125,356)	(209,236)	118,345	527,321	1,112,663
<b>Fund Balance, June 30</b>	<b>\$ (209,236)</b>	<b>\$ 118,345</b>	<b>\$ 527,321</b>	<b>\$ 1,112,663</b>	<b>\$ 934,652</b>

Components					
Unassigned	\$ (50,687)	\$ (73,462)	\$ (78,301)	\$ (93,675)	\$ (132,135)
Nonspendable	2,037	10,244	1,781	2,967	3,883
Restricted/reserved for					
ECFE	196,617	225,808	195,493	206,487	299,509
Community education	(438,776)	(122,940)	307,973	875,192	679,304
School readiness	44,612	78,695	100,375	121,692	84,091
Adult basic education	36,961	-	-	-	-
<b>Total</b>	<b>\$ (209,236)</b>	<b>\$ 118,345</b>	<b>\$ 527,321</b>	<b>\$ 1,112,663</b>	<b>\$ 934,652</b>

In 2025, expenditures exceeded revenues resulting in a decrease in fund balance of \$178,011. Revenues decreased \$671,664 while expenditures increased \$91,423. Revenues decreased as a result of decreased tuition from patrons across activities including youth programs, school readiness, and drivers' education. Expenditures increased due to contractual wage and benefit increases as well as increases in across supplies costs.

## **Independent School District No. 877 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. 877**  
**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. 877**  
**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. 877**  
**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. 877**  
**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).