



**Independent School District No. 726  
Becker, Minnesota**

**Communications Letter**

**June 30, 2025**

**Independent School District No. 726**  
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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. 726  
Becker, 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. 726, Becker, 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 auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 31, 2025, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the School Board and management and 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  
October 31, 2025

**Independent School District No. 726**  
**Significant Deficiency**

**Lack of Segregation of Accounting Duties**

The District has a lack of segregation of accounting duties due to a limited number of office employees. Segregation of accounting duties related to four key areas: initiation/authorization, processing/recording, reconciling/reporting of financial data, and custody of assets. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Payroll Clerk records and processes all payroll transactions, has access to the electronic signature file, runs all checks, and stuffs envelopes.
- The Finance Assistant enters purchase orders and processes received invoices for payment.
- The Director of Business Services has access to all areas of the accounting system and the ability to make journal entries, while performing some initiation and reconciliation duties.

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

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

**Independent School District No. 726  
Required Communication**

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information 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 Basic Financial Statement Audit**

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

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

We are also responsible for communicating significant matters related to the audit that are, in our professional 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 basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

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

**Our Responsibility in Relation to *Government Auditing Standards***

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

**Independent School District No. 726  
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:

- Risk of Misappropriation of Assets - If duties cannot be appropriately segregated within the accounting and finance department, there is a risk of inappropriate allocation of costs to the Internal Service Fund. Also, accounts payable and prepaids could be misstated at year end. Finally, there could be improper payroll disbursements.
- Misappropriation of Assets and Management Override of Controls through the journal entry process.
- Improper Revenue Recognition Specific to 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.
- Risk of Noncompliant Federal Expenditures including transfers of the federal program funds.
- 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 - Total OPEB liability, deferred outflows of resources related to OPEB, and deferred inflows of resources related to OPEB are generally material to the financial statements and involve significant estimates.

**Independent School District No. 726  
Required Communication**

**Significant Risks (Continued)**

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

**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 deadline, this Aid is an estimate. Special Education Aid is also dependent upon ADM values; however, in addition to those, this Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

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

Net Pension Liability, Deferred Outflows of Resources Relating to Pensions and Deferred Inflows of Resources Relating 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.



**Independent School District No. 726  
Required Communication**

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

*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.

We identified uncorrected misstatements of the basic financial statements in the areas listed below. Management has determined their effects are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole.

- Subscription assets and related liabilities are not recorded.
- State receivable/revenue is overstated.

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. 726  
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 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. 726 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.

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

### Average Daily Membership and Pupil Units

The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated 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%

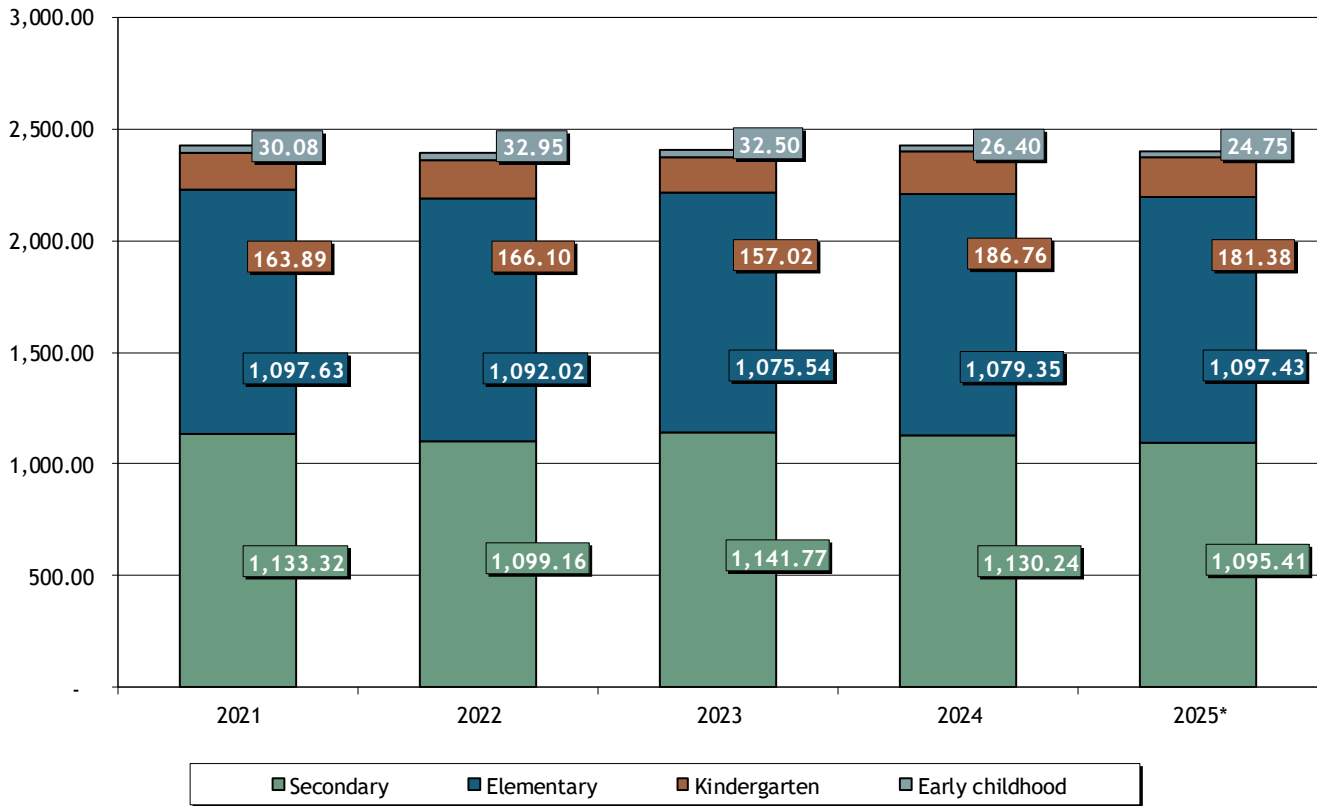
# Independent School District No. 726 Financial Analysis

## Average Daily Membership and Pupil Units (Continued)

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

ADM	2021	2022	2023	2024	2025*
Early childhood	30.08	32.95	32.50	26.40	24.75
Kindergarten	163.89	166.10	157.02	186.76	181.38
Elementary	1,097.63	1,092.02	1,075.54	1,079.35	1,097.43
Secondary	1,133.32	1,099.16	1,141.77	1,130.24	1,095.41
<b>Total Resident ADM</b>	<b>2,424.92</b>	<b>2,390.23</b>	<b>2,406.83</b>	<b>2,422.75</b>	<b>2,398.97</b>
<b>Total Adjusted ADM</b>	<b>2,866.46</b>	<b>2,897.25</b>	<b>2,798.19</b>	<b>2,809.34</b>	<b>2,805.41</b>

## Students (Average Daily Membership)



\* Estimate

The table and graph above illustrate the change in resident ADM. The District experienced a decrease in 2025 of approximately 24 resident ADM based on 2025 estimates.

# Independent School District No. 726 Financial Analysis

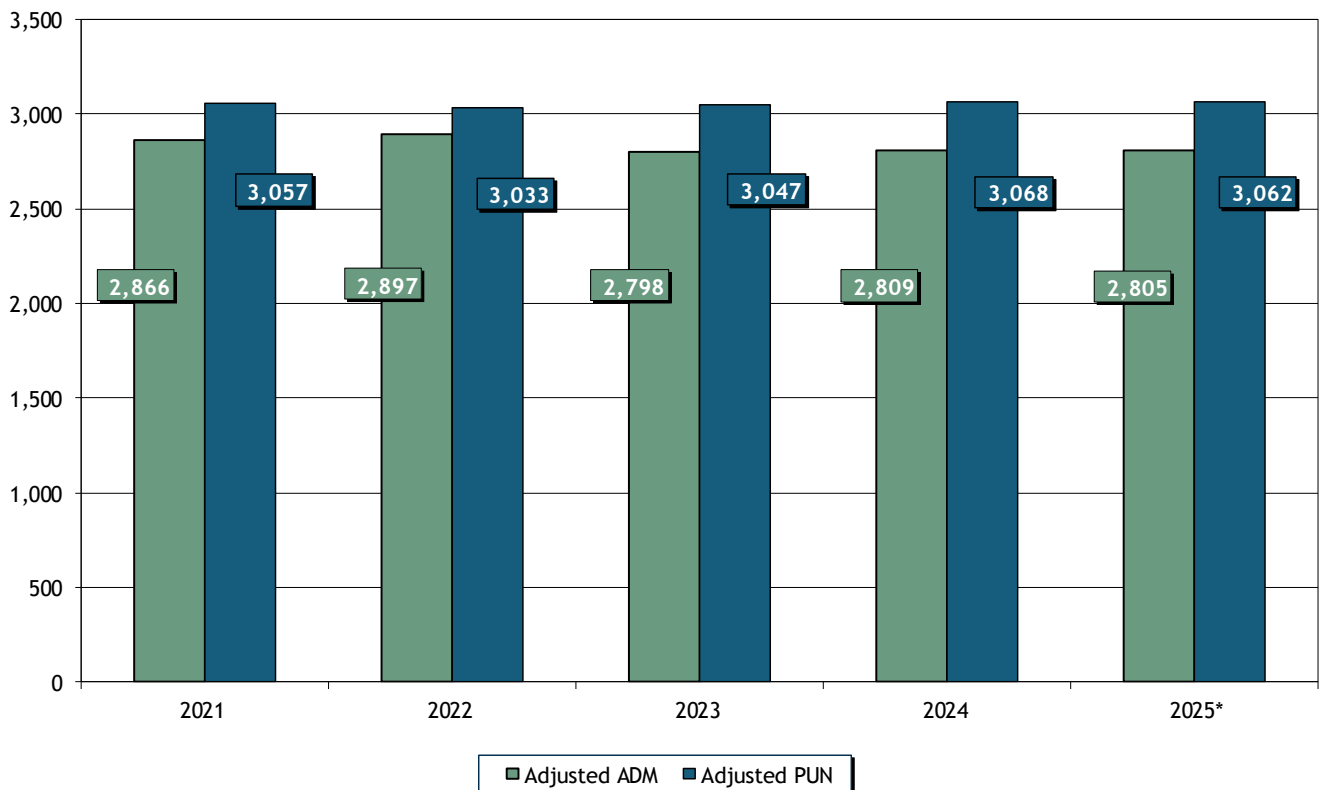
## Resident ADM and Pupil Units

Pupil Units Weighting						
	Early Childhoo	Handicapped Kindergarten	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
2020-2024	1.000	1.000	1.000	1.000	1.000	1.200

The table and graph below convert the resident ADM into adjusted pupil unit numbers (PUN) for the past five years, taking into consideration the above weighting factors and open enrollment. Since the majority of state aid is dependent on student counts, the change in students has a significant impact on the budget. Adjusted PUN decreased approximately 6 students for 2025.

Adjusted PUN	2021	2022	2023	2024	2025*
Residents	2,651.59	2,610.05	2,635.18	2,648.83	2,618.06
Resident loss	(166.11)	(164.56)	(186.62)	(196.94)	(187.22)
Nonresident gain	571.74	587.26	598.59	616.21	630.94
<b>Total Adjusted PUN</b>	<b>3,057.22</b>	<b>3,032.75</b>	<b>3,047.15</b>	<b>3,068.10</b>	<b>3,061.78</b>

## Adjusted ADM and Adjusted PUN



\* Estimate

**Independent School District No. 726**  
**Financial Analysis**

**General Fund Budget and Actual**

The graph below outlines the District's final budget and actual results for the General Fund. The District initially approved a budget anticipating expenditures would exceed revenues by \$509,084. This was modified in June 2025, increasing expenditures. As of June 30, 2025, actual expenditures and other financing uses exceeded actual revenues and other financing sources by \$1,921,841.

Total General Fund revenues came in 4.5% over final budgeted amounts. The budget variance was primarily due to interest revenue being higher than anticipated and increases in SPED revenue from the state compared to the previous year.

Overall, expenditures were 3.2% over budget due to increases in salaries and wages exceeding expectations.

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
<b>Revenues</b>				
Local property taxes	\$ 8,433,662	\$ 8,433,662	\$ 8,498,816	\$ 65,154
State sources	30,758,875	31,052,566	32,152,671	1,100,105
Other	1,960,263	1,554,263	2,224,105	669,842
Total revenues	<u>41,152,800</u>	<u>41,040,491</u>	<u>42,875,592</u>	<u>1,835,101</u>
<b>Expenditures</b>				
Administration	1,803,883	1,803,883	1,841,115	37,232
District support services	1,199,387	1,199,387	1,203,410	4,023
Elementary and secondary regular instruction	20,622,780	20,829,717	20,254,559	(575,158)
Vocational education instruction	58,900	58,900	196,994	138,094
Special education instruction	7,132,770	7,132,770	7,745,841	613,071
Instructional support services	2,533,906	2,678,888	2,977,804	298,916
Pupil support services	3,434,211	3,566,622	3,873,258	306,636
Sites and buildings	4,252,619	5,429,619	5,952,985	523,366
Debt service, fiscal, and other fixed costs	623,428	634,503	672,162	37,659
Total expenditures	<u>41,661,884</u>	<u>43,334,289</u>	<u>44,718,128</u>	<u>1,383,839</u>
Excess of revenues over (under) expenditures	(509,084)	(2,293,798)	(1,842,536)	451,262
<b>Net Other Financing Sources (Uses)</b>				
Total other financing sources (uses)	<u>-</u>	<u>30,000</u>	<u>(79,305)</u>	<u>(109,305)</u>
Net change in fund balances	\$ (509,084)	\$ (2,263,798)	\$ (1,921,841)	\$ 341,957

# Independent School District No. 726

## 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	\$ 37,080,691	\$ 36,740,811	\$ 37,454,940	\$ 40,766,240	\$ 42,875,592
Expenditures	34,967,805	35,984,630	37,904,320	40,290,223	44,718,128
Excess of revenues over (under) expenditures	2,112,886	756,181	(449,380)	476,017	(1,842,536)
Net other financing sources	138,829	218,641	1,716,973	1,604,417	(79,305)
Fund balance, July 1	1,345,218	3,596,933	4,571,755	5,839,348	7,919,782
<b>Fund Balance, June 30</b>	<b>\$ 3,596,933</b>	<b>\$ 4,571,755</b>	<b>\$ 5,839,348</b>	<b>\$ 7,919,782</b>	<b>\$ 5,997,941</b>

Components	2021	2022	2023	2024	2025
Nonspendable	\$ 238,988	\$ 536,706	\$ 820,266	\$ 461,251	\$ 441,008
Restricted/reserved for*					
Operating Capital	37,550	77,970	1,453,976	2,462,123	336,342
Literacy Aid	-	-	-	-	81,638
Long-Term Facilities	20,592	89,421	162,548	277,453	1,223,253
American Indian Education Aid	-	-	-	8,306	-
READ Act	-	-	-	-	36,770
Student Activities	97,733	157,481	124,362	131,412	18,031
Scholarships	3,471	6,811	5,561	7,061	7,061
Assigned for					
Building level activity	116,890	142,739	196,720	345,397	226,492
Unassigned	3,081,709	3,560,627	3,075,915	4,226,779	3,627,346
<b>Total</b>	<b>\$ 3,596,933</b>	<b>\$ 4,571,755</b>	<b>\$ 5,839,348</b>	<b>\$ 7,919,782</b>	<b>\$ 5,997,941</b>

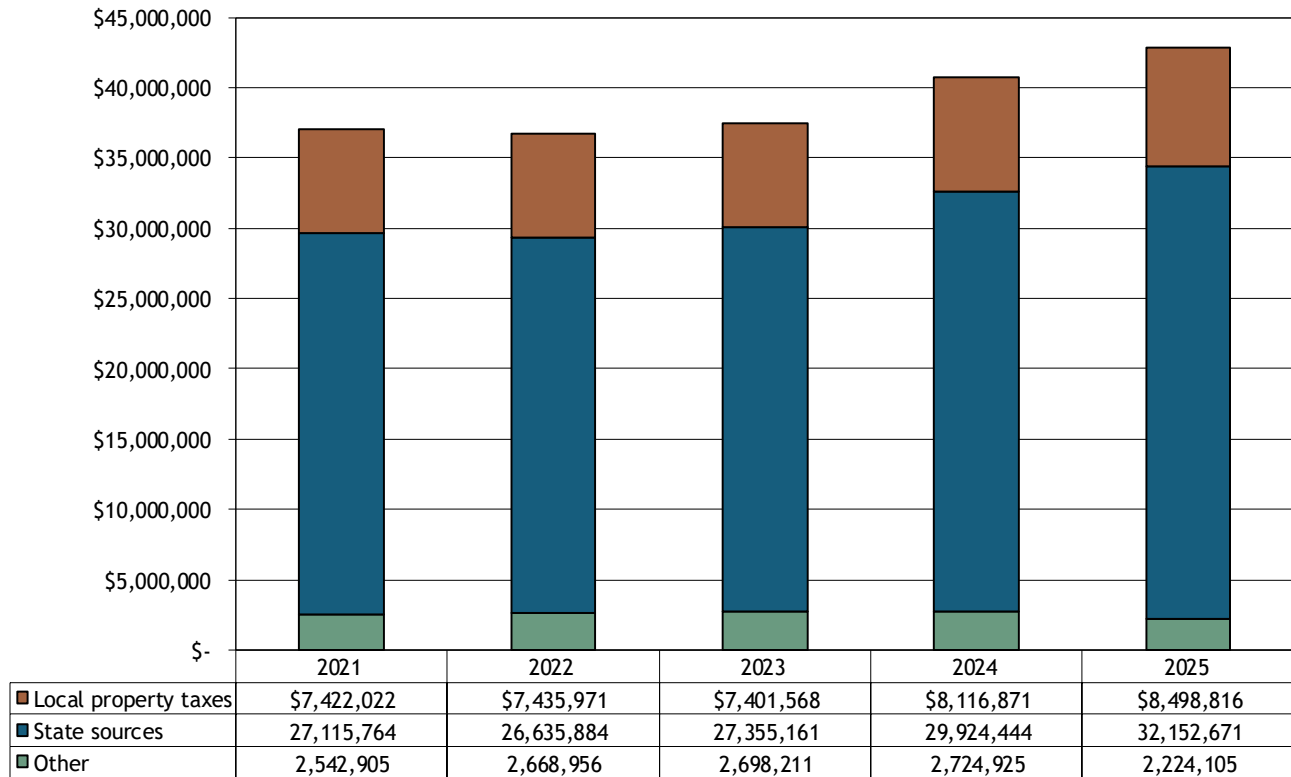
\* Deficit amounts are reported as unassigned fund balance on the Balance Sheet.

The District has a minimum unassigned fund balance goal of one month, or 8% of the annual budget. As of June 30, 2025, the District had approximately 8.1% of the annual budget (based on year 2025 budget levels) in unassigned fund balance.

# Independent School District No. 726 Financial Analysis

## General Fund Sources of Revenue

**General Fund Sources of Revenue**



Total General Fund revenues increased \$2,109,352, or 5.2%, from 2024.

State revenue, which makes up the largest percentage of the District's revenue, increased \$2,228,227 due to the increase in the special education.

Local property tax revenue, which makes up the second largest percentage of the District's revenue, increased \$381,945 due to an increase in the levy.

Revenues from other sources decreased from the previous year due to the ending of COVID programs in the previous year.

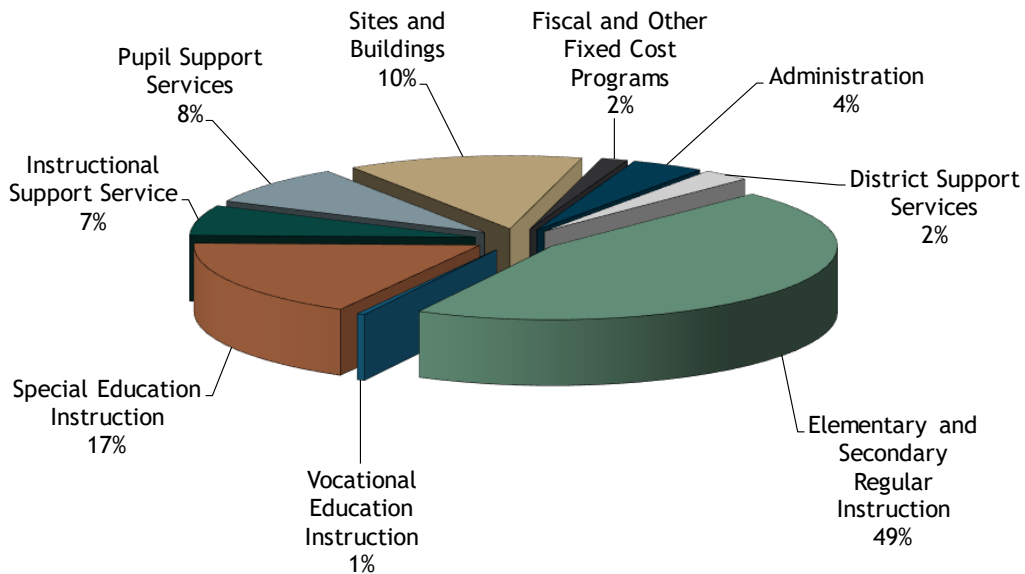


## Independent School District No. 726 Financial Analysis

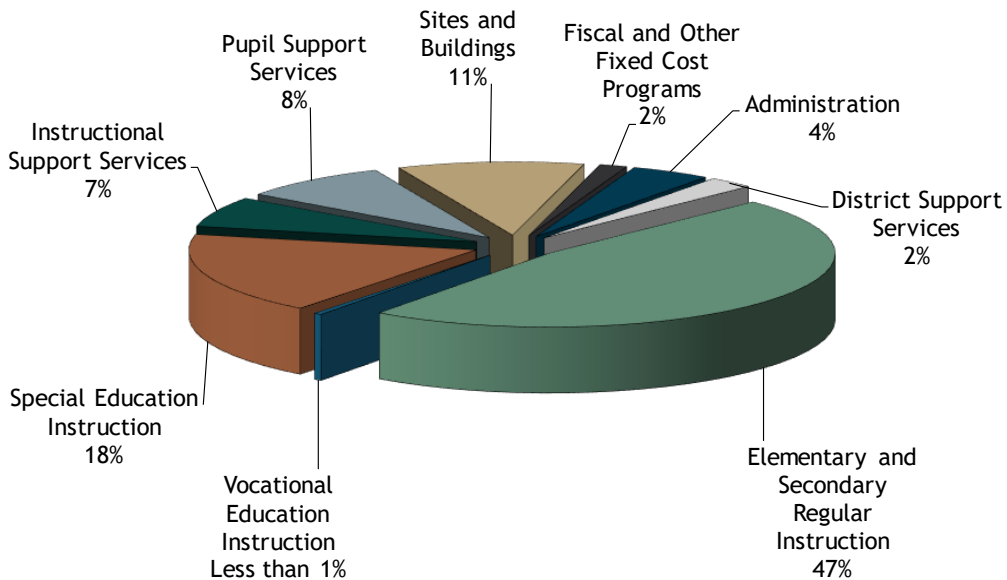
### General Fund Expenditures

The following charts outline a comparison of General Fund expenditures for the past two years.

#### 2025 General Fund Expenditures



#### 2024 General Fund Expenditures

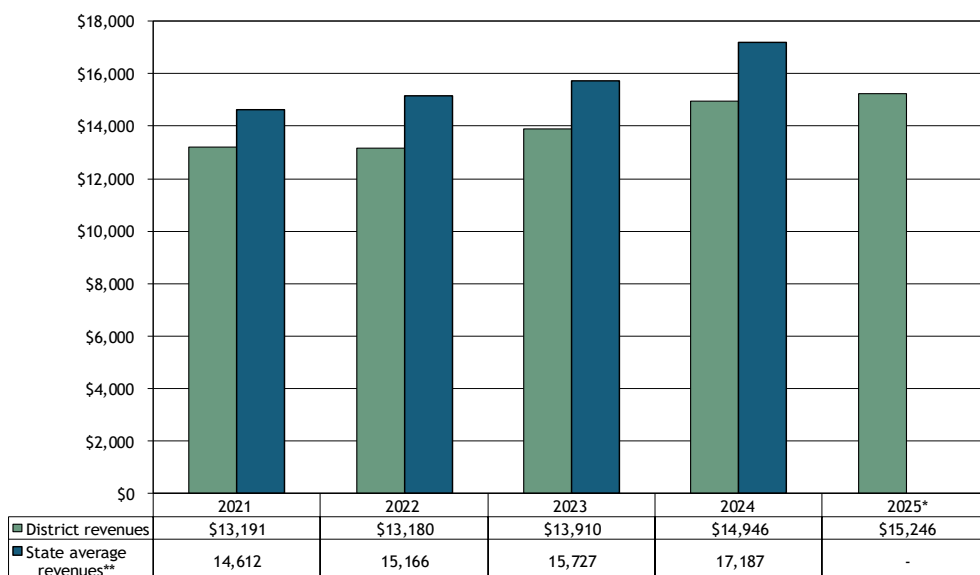


Compared to the prior year, 2025 expenditures increased \$4,427,905, or 11.0%. Regular instruction expenditures increased primarily due to increases in wages and benefits and purchases of equipment.

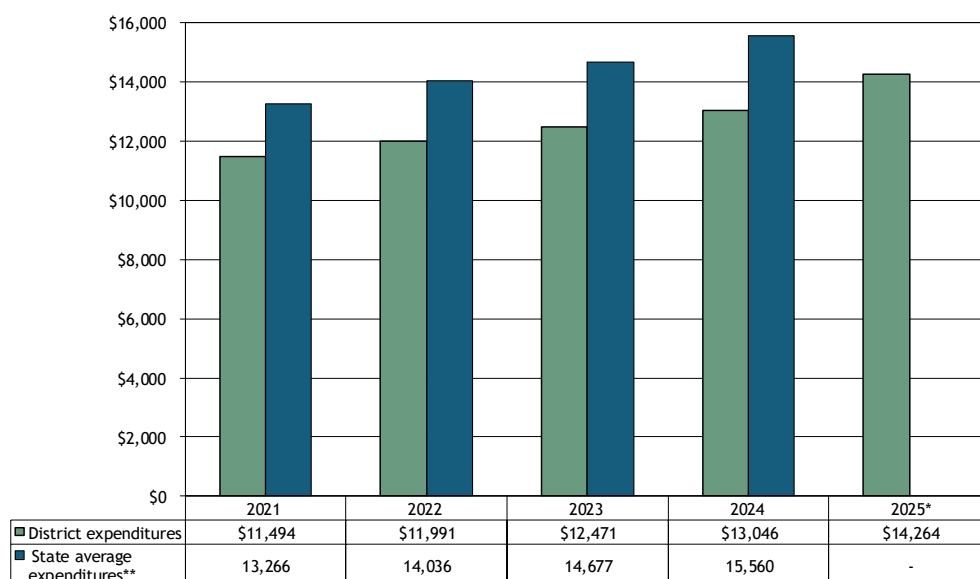
# Independent School District No. 726 Financial Analysis

## General Fund Revenues and Expenditures Per ADM Served

### Revenues Per ADM Served



### Expenditures Per ADM Served



\* Estimate

\*\* State averages obtained from the Minnesota Department of Education's (MDE) publication *School District Profiles*. Amounts for 2025 are not yet available.

The District's General Fund operating expenditures and revenues per ADM served have been overall increasing, although consistently less than the state averages.

# Independent School District No. 726 Financial Analysis

## General Fund Expenditures by Program and General Fund Operations

District and state expenditures by program are shown below as a percentage of the total spent.

	District	State	District	State
	2024	Average 2024**	2025*	Average 2025**
District and School Administration	7.9%	8.6%	6.5%	N/A
Regular Instruction***	46.4%	41.9%	44.7%	N/A
Vocational Instruction	0.4%	1.4%	0.4%	N/A
Special Education Instruction	17.9%	19.2%	17.2%	N/A
Instructional Support Services	4.3%	5.0%	5.6%	N/A
Pupil Support Services****	8.0%	10.3%	7.6%	N/A
Sites, Buildings, and Equipment	6.8%	7.1%	9.2%	N/A
Capital Outlay	8.3%	6.5%	8.8%	N/A
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>N/A</b>

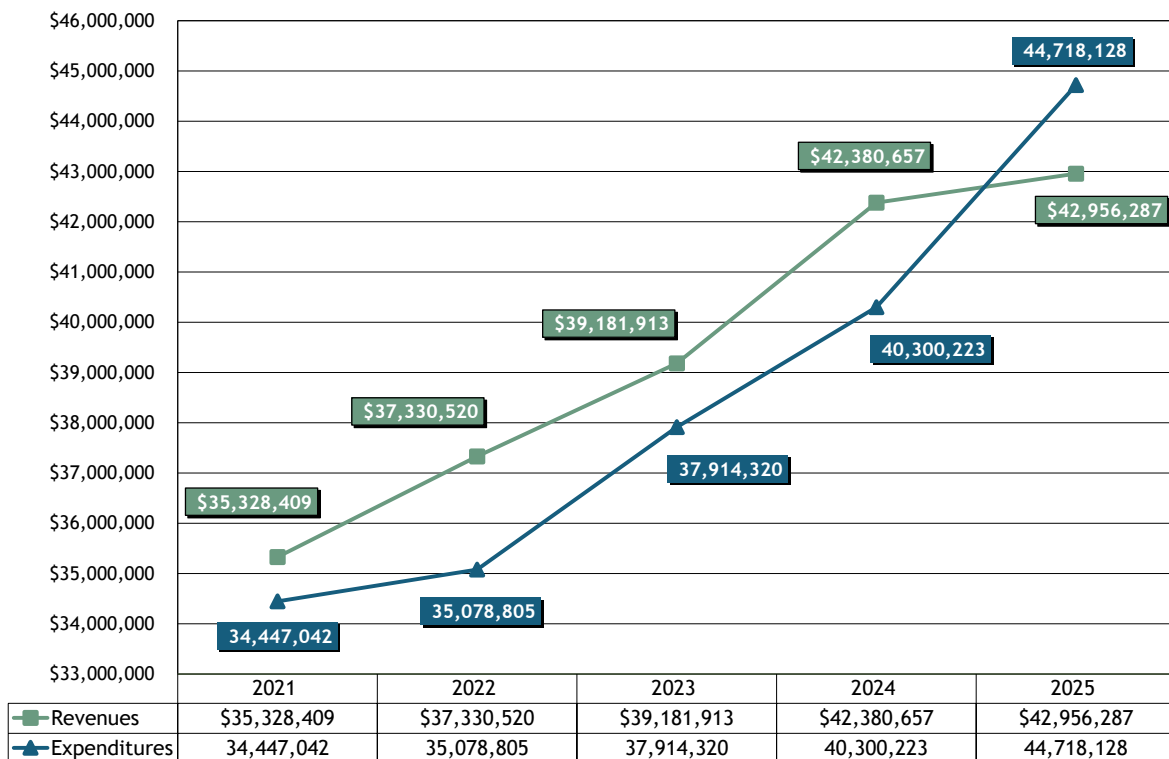
\* Estimate

\*\* State averages obtained from the Minnesota Department of Education's (MDE) publication *School District Profiles*. Amounts for 2025 are not yet available.

\*\*\* Includes student activities and athletics.

\*\*\*\* Includes transportation.

## General Fund Revenues and Expenditures



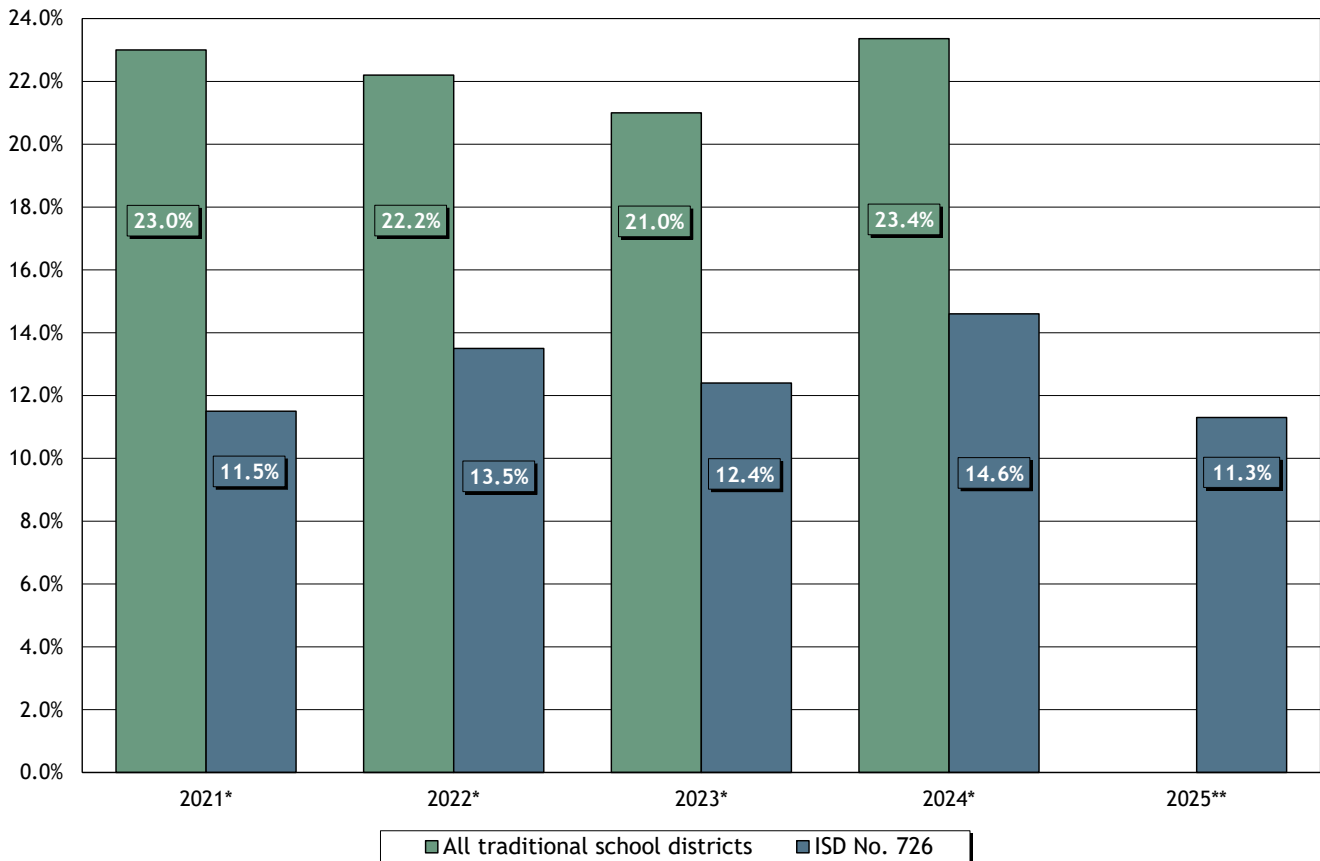
While expenditures and other financing uses increased \$4,322,830 and revenues and other financing sources increased \$575,630 from the prior year, expenditures exceeded revenues in 2025.

## Independent School District No. 726 Financial Analysis

### General Fund Financial Health

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

#### General Fund Expenditures of Fund Balance



\* Information was obtained from the MDE web site report *Fiscal Year 2013-2024 General Fund Unreserved Balance*. 2025 information is not available.

\*\* Estimate

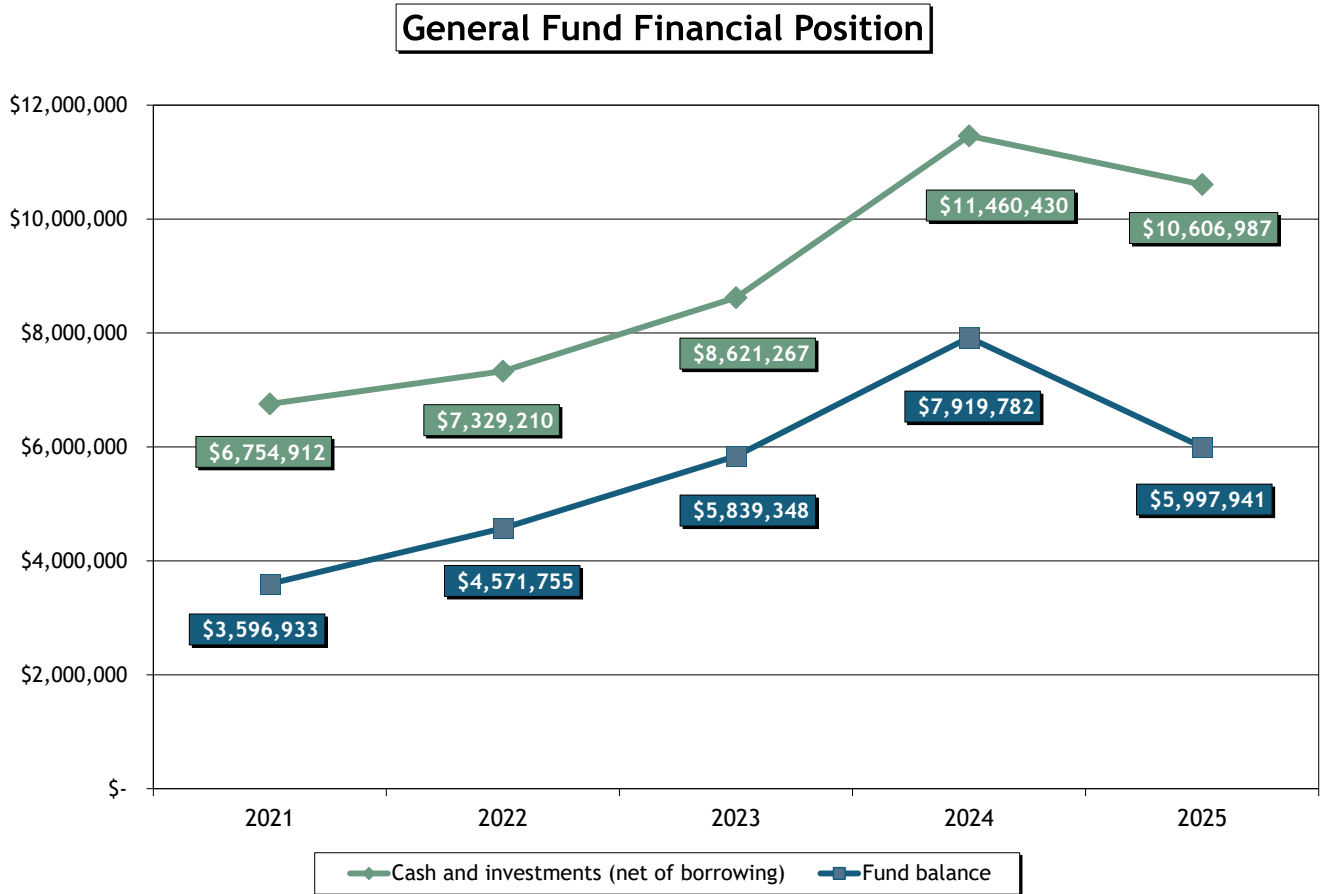
The calculations above reflect the unassigned, assigned, committed and nonspendable fund balances of the General Fund and the corresponding expenditures, which is the same method the state uses for the statutory operating debt (SOD) calculation.

The District's percentage has been consistently below state averages.

## Independent School District No. 726 Financial Analysis

### General Fund Operations

The graph below charts cash and investments (net of borrowing) for the General Fund versus the total fund balance for the General Fund.



The General Fund's cash and investments balance significantly exceeds the fund balance due to the large amount of salaries and benefits payable primarily related to July and August teacher payrolls and property taxes received prior to being recognized as revenue.

**Independent School District No. 726**  
**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	\$ 2,078,853	\$ 2,775,538	\$ 2,046,137	\$ 2,645,157	\$ 2,700,371
Expenditures	1,649,404	2,044,357	2,217,824	2,720,489	2,675,048
Excess of revenues over (under) expenditures	429,449	731,181	(171,687)	(75,332)	25,323
Fund balance, July 1	118,411	547,860	1,279,041	1,107,354	1,032,022
<b>Fund Balance, June 30</b>	<b>\$ 547,860</b>	<b>\$ 1,279,041</b>	<b>\$ 1,107,354</b>	<b>\$ 1,032,022</b>	<b>\$ 1,057,345</b>

In 2025, fund balance increased \$25,323. Revenues and Expenditures remained relatively stable compared to 2024.

**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	\$ 1,355,510	\$ 1,592,931	\$ 1,661,919	\$ 1,816,604	\$ 1,957,837
Expenditures	1,385,024	1,616,519	1,757,800	1,744,720	1,927,820
Excess of revenues over (under) expenditures	(29,514)	(23,588)	(95,881)	71,884	30,017
Transfer in	111,000	10,000	10,000	10,000	160,000
Fund balance, July 1	178,086	259,572	245,984	160,103	241,987
<b>Fund Balance, June 30</b>	<b>\$ 259,572</b>	<b>\$ 245,984</b>	<b>\$ 160,103</b>	<b>\$ 241,987</b>	<b>\$ 432,004</b>

Components	2021	2022	2023	2024	2025
Nonspendable	\$ 8,833	\$ 12,738	\$ 10,674	\$ 16,173	\$ 16,153
Restricted/reserved for					
Community Education*	25,549	(6,880)	(80,978)	(169,990)	(1,654)
Early Childhood and Family Education	185,376	210,906	251,988	271,615	293,293
School Readiness	35,852	20,884	(30,726)	120,441	119,126
Community Service	3,962	8,336	9,145	3,748	5,086
<b>Fund Balance, June 30</b>	<b>\$ 259,572</b>	<b>\$ 245,984</b>	<b>\$ 160,103</b>	<b>\$ 241,987</b>	<b>\$ 432,004</b>

\* In years when deficit, the deficit amount is shown in the unassigned fund balance on the balance sheet.

In 2025, revenues increased \$141,233 due to improved market performance. Expenditures increased \$183,099 due to increased consulting fees for the year. The General Fund transferred \$160,000 to offset revenue shortfalls in the early childhood screening program and community education.

## **Independent School District No. 726 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. 726**  
**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. 726 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. 726**  
**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. 726  
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).