Independent School District No. 742
St. Cloud, Minnesota

Communications Letter

June 30, 2025

Independent School District No. 742
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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. 742
St. Cloud, 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. 742, St. Cloud, 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 our audit 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 material weakness and a deficiency that we consider to be a significant deficiency.

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

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

- *Probable*. The future event or events are likely to occur.

The material weakness identified is stated within this letter.

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

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 5, 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, and others within the District, and state oversight agencies the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

St. Cloud, Minnesota
November 5, 2025

Independent School District No. 742
Material Weakness

Prior Period Adjustment
During the course of our engagement, a prior period adjustment was required that was not identified as a result of the District's existing internal controls and resulted in a material misstatement of the District's fiscal year 2024 financial statements. In order to ensure financial statements were free from material misstatement, a prior period adjustment was required to record the District's interest receivable in the Building Construction Capital Project Fund as of June 30, 2024.

Independent School District No. 742
Significant Deficiency

Lack of Segregation of Accounting Duties
The District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. Examples of the lack of segregation of accounting duties include, but are not limited to the following:

- The Executive Director of Finance and Business Services has full access to the general ledger.
- Secretaries at the elementary schools and community education office receives cash and prepare the deposit.
- The Accountant receives cash, posts amounts into the finance system, prepares the deposit, and makes the deposit.
- The Payroll Secretary enters timecard information into the system and processes payroll. The Accountant reviews the payroll report and certain paper timecards. The Payroll Coordinator also reviews random selections of paper timecards to ensure information was entered correctly into the District's payroll system.

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 that could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. Management and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

Independent School District No. 742
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 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 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. 742
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:

- Improper Revenue Recognition – Revenue recognition is considered a risk on substantially all engagements as it is generally the largest line item impacting a District's operating results.
- Management Override of Controls through Journal Entries – Management override of controls is required to be considered a risk in each engagement.
- Misappropriation of Assets – If duties cannot be appropriately segregated within the accounting and finance department, there is a risk of unauthorized payroll transactions being made.
- State Aid Valuation – Revenue and receivable amounts related to General Education and Special Education Aid are generally material to the financial statements and involve significant estimates.
- Capital Assets Valuation – Capital assets and depreciation are 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.

Significant Risks Identified (Continued)

- 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.
- Compensated Absences Valuation – The compensated absences liability is generally material to the financial statements and involves 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 has been no initial selection of accounting policies in 2025. The District amended its capital assets accounting policy to increase its capitalization threshold 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 value; however, in addition to those, this aid is dependent on the availability of funding at the state and complex formulas that are finalized after reporting deadlines.

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

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 Pension Activity, and Deferred Inflows of Resources Relating to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

Compensated Absences - This balance is based on estimates based on the likelihood that leave will be used for time off while actively employed and the likelihood that leave will be paid out as a severance benefit upon separation of employment.

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 in determining 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.

The following bullet points summarize the uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

- State revenues and related receivable were understated in the General Fund
- Prepaid items were overstated and expenditures were understated in the General Fund

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

- Interest receivable as of June 30, 2024, was recorded in the Building Construction Fund

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.

Independent School District No. 742
Required Communication

Management's Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

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

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

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

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

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Independent School District No. 742
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. A subsequent discussion of this information should be useful for planning purposes.

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 by 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.

	General Education Aid Formula Allowance	
Year	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%

Average Daily Membership and Pupil Units (Continued)

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

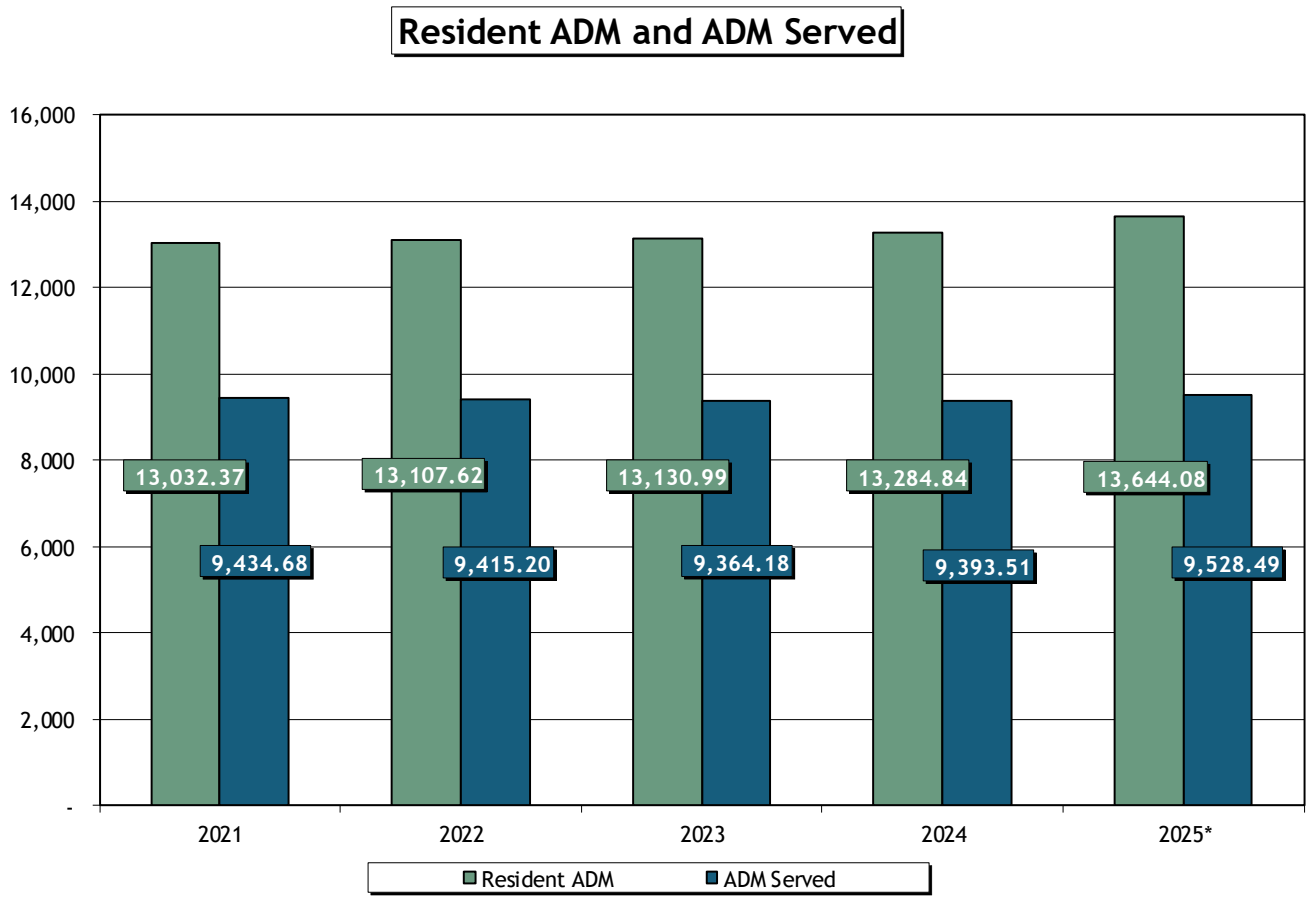
Resident ADM	2021	2022	2023	2024	2025*
Kindergarten and other	1,261.92	1,354.81	1,349.95	1,336.15	1,310.63
Elementary	5,817.03	5,785.84	5,907.69	6,040.95	6,367.34
Secondary	5,953.42	5,966.97	5,873.35	5,907.74	5,966.11
Total Resident ADM	**13,032.37**	**13,107.62**	**13,130.99**	**13,284.84**	**13,644.08**

ADM Served	2021	2022	2023	2024	2025*
Residents served	8,986.01	8,880.27	8,863.62	8,994.84	9,145.22
Joint powers district					
Residents	8.64	-	-	-	-
Nonresidents	49.45	-	-	-	-
Extended time	79.58	177.73	176.37	124.52	92.14
Nonresident options	236.33	264.72	244.70	188.30	154.26
Ineligible for funding	11.28	20.43	17.06	10.23	51.76
Tuition					
Residents	28.14	35.12	27.68	34.31	46.61
Nonresidents	29.53	33.00	31.25	38.97	37.36
Shared time	5.72	3.93	3.50	2.34	1.14
ADM Served	**9,434.68**	**9,415.20**	**9,364.18**	**9,393.51**	**9,528.49**

* Estimate

ADM served takes into consideration open enrollment and other student agreements that resident ADM does not. ADM served also considers both tuition residents and nonresidents as the District incurs costs for both.

Average Daily Membership and Pupil Units (Continued)



* Estimate

As the chart on the previous page and the graph above indicate, resident ADM increased by an estimated 359 ADM from 2024 to 2025. Over the same period, ADM served increased approximately 135 ADM.

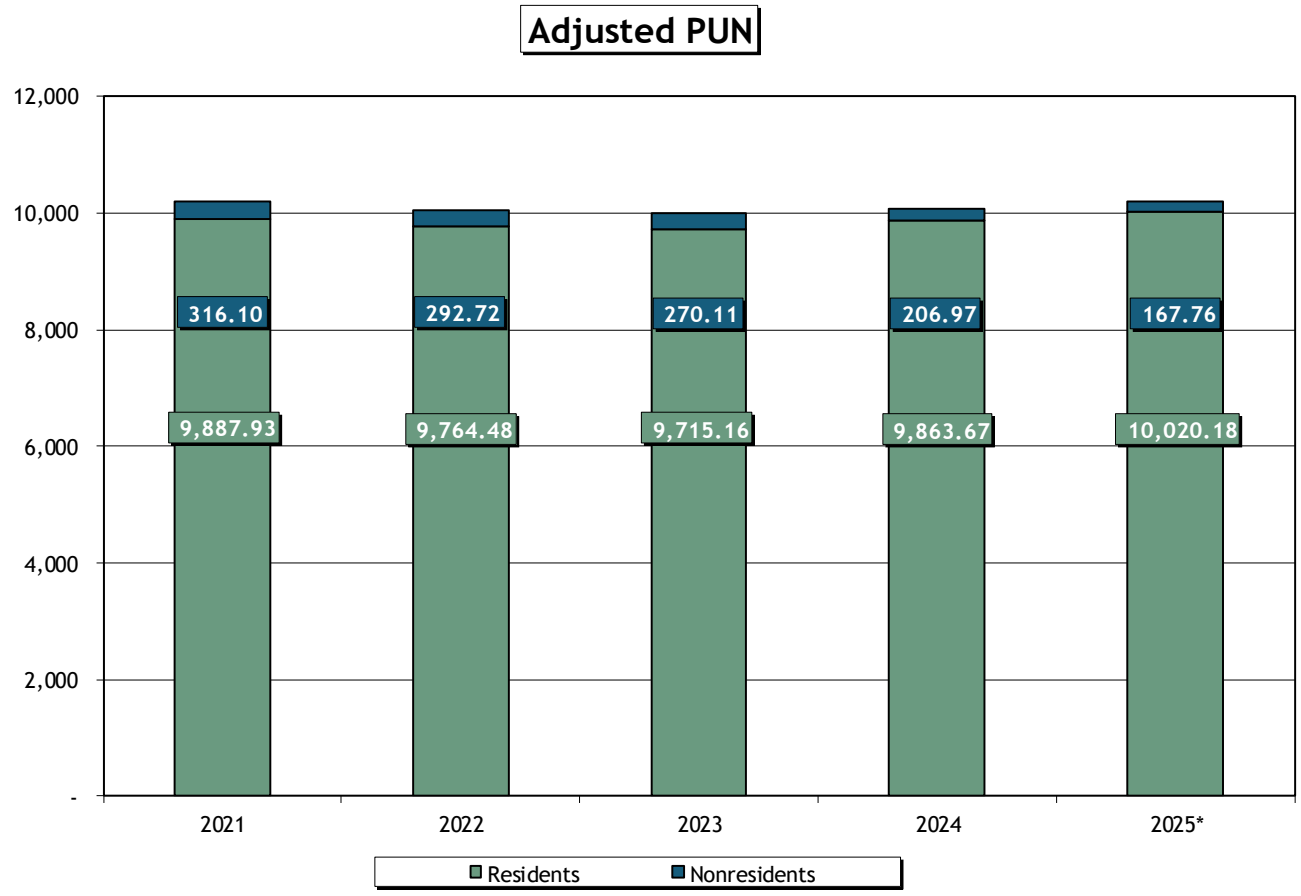
To calculate the majority of the District's education aids, the ADM amounts are weighted based on the student's grade level. The following table displays the weighting for the past five years.

	Disabled				
	Prekindergarten	Kindergarten	Kindergarten	Elementary	Secondary
2021-2025	1.000	1.000	1.000	1.000	1.200

Average Daily Membership and Pupil Units (Continued)

Adjusted PUN	2021	2022	2023	2024	2025*
Residents	14,223.02	14,300.59	14,305.18	14,465.94	14,837.29
Resident PUN going out	(4,335.09)	(4,536.11)	(4,590.02)	(4,602.27)	(4,817.11)
Nonresident PUN coming in	316.10	292.72	270.11	206.97	167.76
Total Adjusted PUN	**10,204.03**	**10,057.20**	**9,985.27**	**10,070.64**	**10,187.94**

Breakdown of Adjusted PUN	2021	2022	2023	2024	2025*
Regular	10,040.02	9,860.29	9,784.36	9,932.44	10,087.75
Joint powers district	69.94	-	-	-	-
Extended time	94.07	196.91	200.91	138.20	100.19
Total Adjusted PUN	**10,204.03**	**10,057.20**	**9,985.27**	**10,070.64**	**10,187.94**



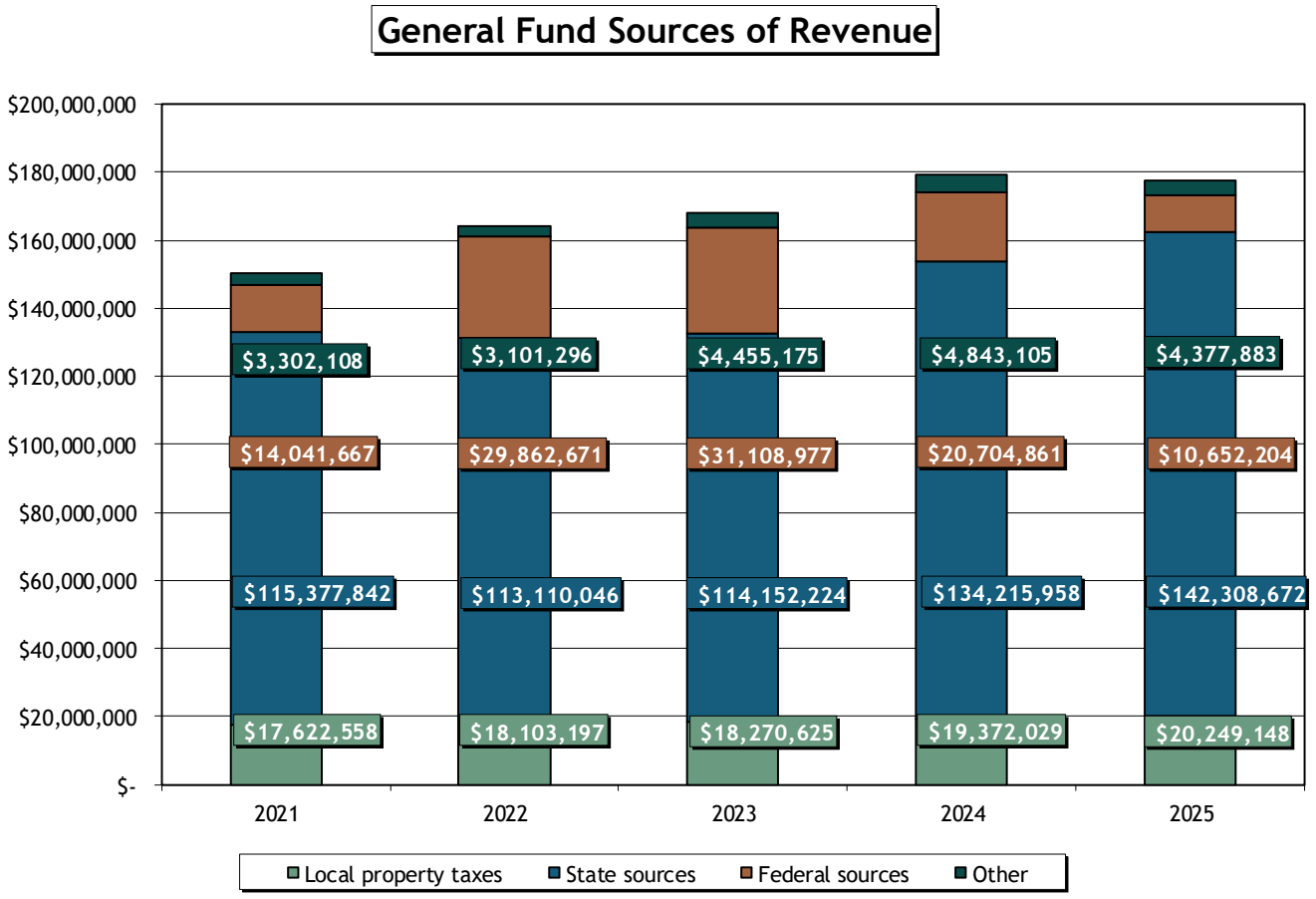
* Estimate

For 2025, Adjusted PUN increased approximately 117 from 2024 to 2025.

General Fund Sources of Revenue

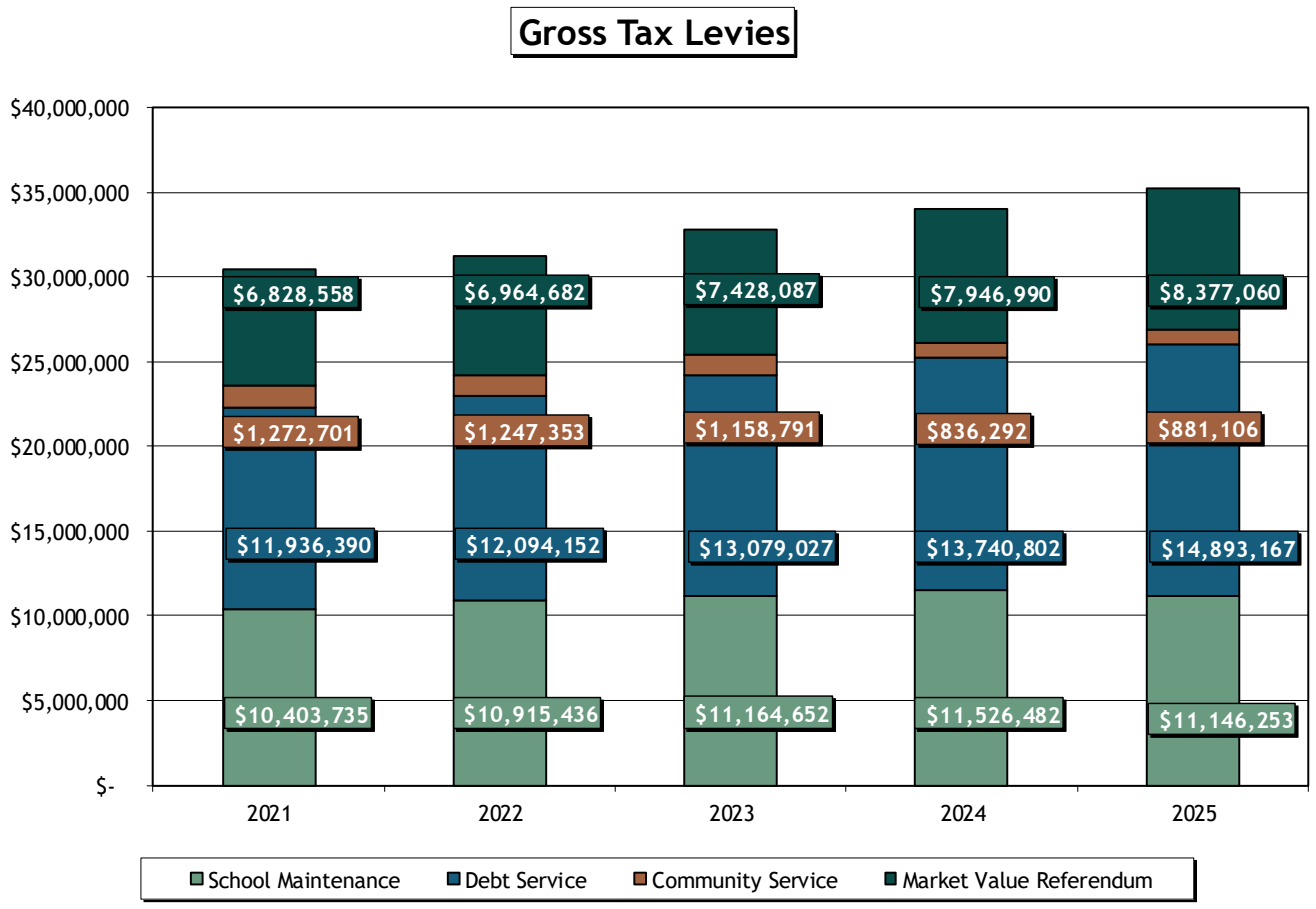
General Fund sources of revenue are summarized as follows:

	2021	2022	2023	2024	2025
Local property taxes	$ 17,622,558	$ 18,103,197	$ 18,270,625	$ 19,372,029	$ 20,249,148
State sources	115,377,842	113,110,046	114,152,224	134,215,958	142,308,672
Federal sources	14,041,667	29,862,671	31,108,977	20,704,861	10,652,204
Other	3,302,108	3,101,296	4,455,175	4,843,105	4,377,883
Total Revenues	**$ 150,344,175**	**$ 164,177,210**	**$ 167,987,001**	**$ 179,135,953**	**$ 177,587,907**



As indicated by the chart and graph above, total General Fund revenues decreased $1,548,046, or 0.9%, from 2024 to 2025. Federal revenues decreased $10,052,657 due to the end of the pandemic relief funds. Partially offsetting this decrease, revenue from state sources increased $8,092,714 due to an increase in the entitlement amount for general education aid due to the formula allowance increase and an increase in compensatory revenue. The state special education entitlement increased due to increased costs. The District saw an increase in summer unemployment revenue and received new aid related to teacher compensation for Read Act training. Revenues from local property taxes increased $877,119 due to an increase in the levy amount based on enrollment.

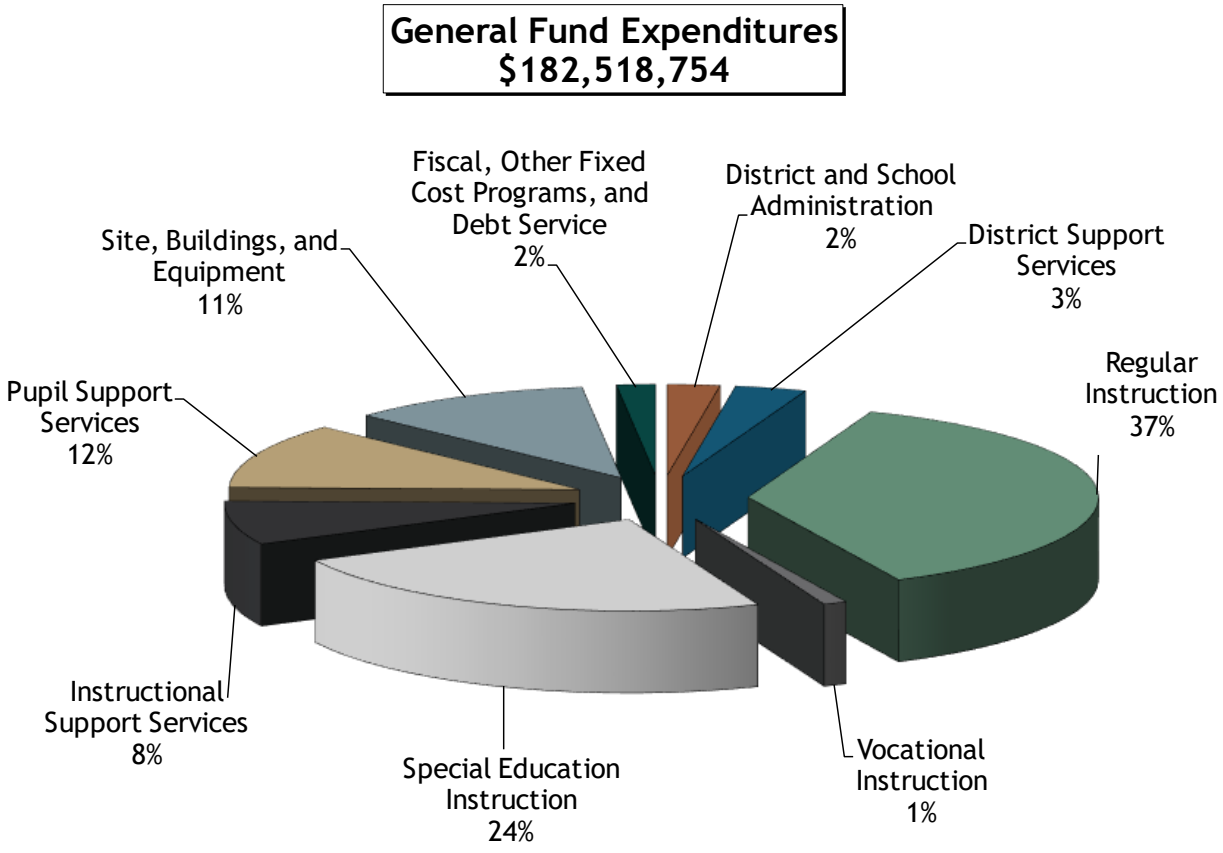
Gross Tax Levies



Pay 2025 gross tax levies increased $1,247,020 in total from the Pay 2024 levies. The most significant increases were related to the market value referendum based on enrollment and the debt service levy for fiscal year 2026 long-term debt payments.

General Fund Operations

The following chart outlines the General Fund expenditures as a percentage by program type for 2025. Regular instruction continues to make up the largest portion of District expenditures at 37% in 2025. The instruction categories made up 62% of expenditures in 2025 compared to 61% of expenditures in 2024.



Expenditures Per Student

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

	2021	2022	2023	2024	2025*
General Fund	$ 15,724	$ 17,396	$ 17,977	$ 18,474	$ 19,157
State-wide average by size**	14,552	15,351	16,136	17,242	N/A

The following is the expenditures per student (ADM) served by program:

	District 2024	State Average by Size 2024**	District 2025*	State Average 2025
District and school administration	$ 1,196	$ 1,363	$ 1,094	N/A
Regular instruction	6,688	7,241	7,134	N/A
Vocational instruction	202	227	206	N/A
Special education instruction	4,267	3,410	4,518	N/A
Instructional support services	1,370	998	1,487	N/A
Pupil support services	2,047	1,848	2,227	N/A
Site, buildings, equipment and other	2,704	2,155	2,491	N/A
Total Expenditures per Student	**$ 18,474**	**$ 17,242**	**$ 19,157**	**N/A**

* Estimate based on most current ADM numbers
** Includes all schools with enrollment of 4,000 students or more for 2021-2024

Amounts listed for 2021-2024 are taken from the Minnesota Department of Education (MDE) publication, *School District Profiles*. State averages for 2025 are not currently available.

Expenditures per student served for the General Fund increased from 2024 to 2025 by $683, or 3.7%. Expenditures increased $8,357,257, or 4.8%, while ADM served increased 1.4% since 2024. Expenditures increased in 2025 primarily due to increases in salaries and benefits related to contract settlements, step and lane movement, increased time in the teacher contract day, and the addition of special education teacher positions. Higher transportation costs and additional routes further contributed to the expenditure increase.

Independent School District No. 742
Financial Analysis

General Fund Operations

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

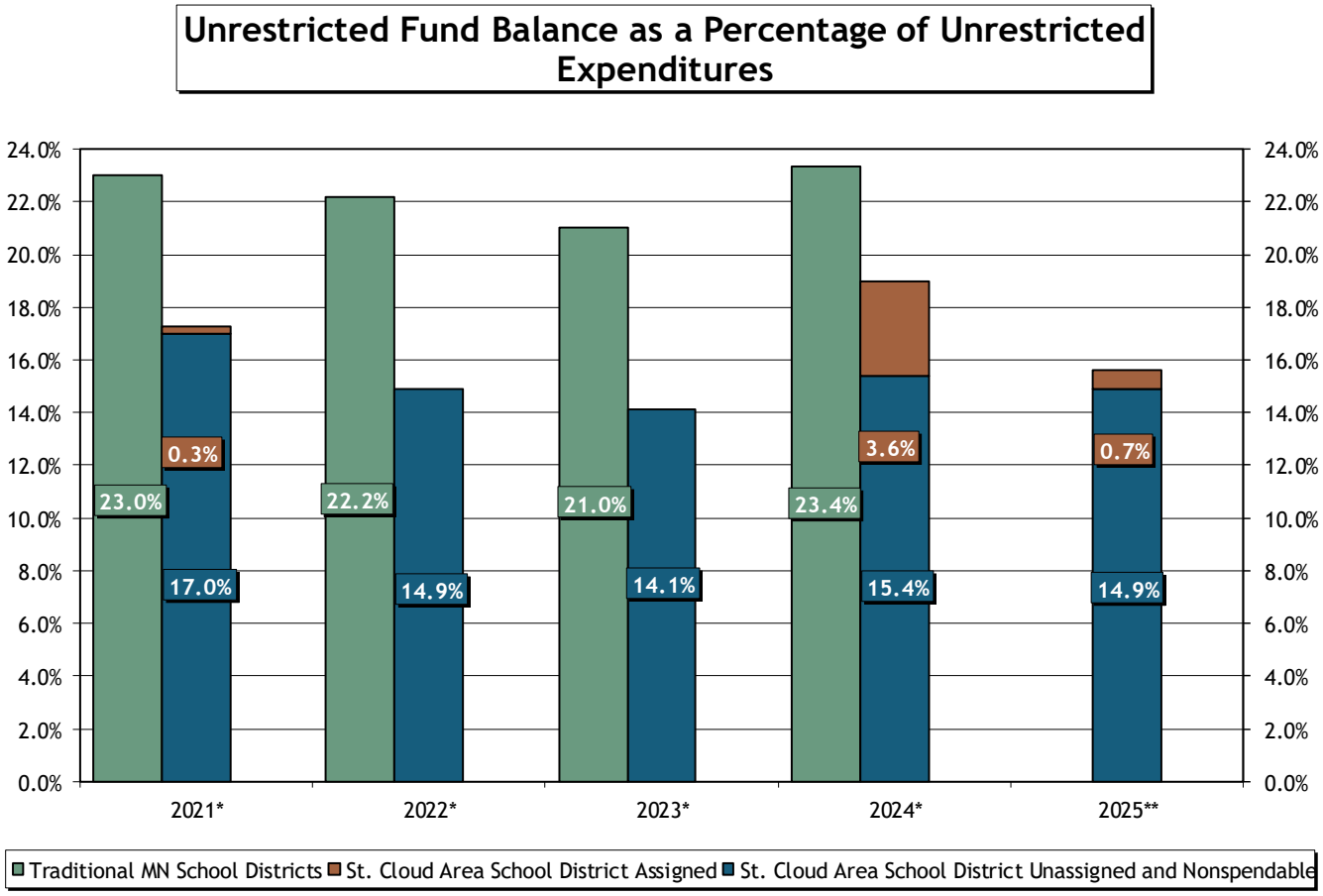
For the Year Ended June 30,	2021	2022	2023	2024	2025
Revenues	$ 150,344,175	$ 164,177,210	$ 167,987,001	$ 179,135,953	$ 177,587,907
Expenditures	150,370,463	163,990,127	168,528,944	174,161,497	182,518,754
Excess of revenues over (under) expenditures	(26,288)	187,083	(541,943)	4,974,456	(4,930,847)
Debt issuance	-	7,075,000	-	-	-
Debt premium	-	519,855	-	-	-
Debt refunding payment	-	(7,455,000)	-	-	-
Insurance recoveries	1,737	3,080	-	-	22,148
Lease, subscription, finance purchase agreement proceeds	1,721,015	-	-	261,927	1,268,753
Fund balance, July 1	22,103,879	23,800,343	24,130,361	23,588,418	28,824,801
Fund balance, June 30	**$ 23,800,343**	**$ 24,130,361**	**$ 23,588,418**	**$ 28,824,801**	**$ 25,184,855**
Components					
Nonspendable	$ 1,409,888	$ 1,229,717	$ 558,511	$ 575,010	$ 512,900
Restricted for					
Operating capital	2,527,247	2,632,642	2,570,040	2,181,735	2,048,165
Area Learning Center	779,233	779,233	823,514	823,514	184,520
Long term facilities maintenance*	5,211	(69,781)	(46,326)	(18,027)	(2,816)
Gifted and talented	85,450	81,573	78,450	87,878	88,544
Basic skills extended time	1,407,220	1,407,220	1,407,220	1,407,220	-
Basic skills	-	-	-	-	1,699,204
Teacher comp for Read Act training	-	-	-	-	311,024
Scholarships	158,596	136,161	144,848	162,863	159,957
Student Activities	292,627	334,781	357,577	338,133	381,013
Assigned for					
Future projects	312,405	-	-	4,540,492	937,758
Unassigned	16,822,466	17,598,815	17,694,584	18,725,983	18,864,586
Total	**$ 23,800,343**	**$ 24,130,361**	**$ 23,588,418**	**$ 28,824,801**	**$ 25,184,855**

* Negative restrictions are presented as unassigned in the basic financial statements as required by GASB Statement No. 54.

The total fund balance of the General Fund decreased $3,639,946 as a result of 2025 activity. Of this decrease, $3,602,734 is in the assigned fund balance, which is set aside for future projects. These funds were set aside in fiscal year 2024 a result of the overlap between the final year of federal ESSER funds and the new state special education cross subsidy reduction aid. These funds were authorized by the School Board for one-time purchases and capital projects.

As of June 30, 2025, the District reported an unassigned fund balance of $18,864,586, which is approximately one and one-fourth months' or 10.3% of expenditures (based on 2025 levels). The District's fund balance policy outlines a minimum of 10.0% of the annual expenditure budget.

General Fund Operations (Continued)
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.



* Information was obtained from MDE web site report *Fiscal Year 2021-2024 General Fund Unreserved Balance*. 2025 information is not available.

** Obtained from MDE Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Report. This amount includes the amounts assigned for various projects as noted on the previous page. Excluding these assignments, this percentage would be less as noted in the table above.

The calculations above reflect only the unrestricted fund balance of the General Fund and the corresponding expenditures, which is the same method which the state uses for the statutory operating debt (SOD) calculation. SOD is when a district's unrestricted fund balance ends the year below (2.5%). The District's unrestricted fund balance in comparison to its expenditures has historically been lower than the state-wide average.

Since June 30, 2021, total fund balance has overall increased $1,384,512; however, the District’s fund balance percentage from 2021 to 2025 decreased overall as expenditures have increased.

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	$ 4,363,523	$ 7,513,658	$ 6,811,367	$ 8,280,928	$ 8,381,636
Expenditures	4,426,876	6,073,956	6,968,133	7,745,449	7,894,894
Excess of revenues over (under) expenditures	(63,353)	1,439,702	(156,766)	535,479	486,742
Other financing sources	-	-	-	49,003	-
Fund balance, July 1	967,151	903,798	2,343,500	2,186,734	2,771,216
Fund balance, June 30	**$ 903,798**	**$ 2,343,500**	**$ 2,186,734**	**$ 2,771,216**	**$ 3,257,958**

In 2025, fund balance increased from $2,771,216 to $3,257,958, which is approximately 41.3% of the 2025 expenditures of this Fund. Revenues increased $100,708 due to an increase in the number of meals served and an increase in the USDA meal reimbursement rate. Expenditures increased $149,445 primarily due to increased food and milk costs with the increase in the number of meals served and increase in salaries and benefits from contract settlements.

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	$ 6,420,092	$ 6,937,193	$ 6,885,427	$ 6,856,373	$ 6,921,742
Expenditures	5,772,692	6,777,374	7,227,327	7,337,967	7,008,670
Excess of revenues over (under) expenditures	647,400	159,819	(341,900)	(481,594)	(86,928)
Fund balance, July 1	2,708,123	3,355,523	3,515,342	3,173,442	2,691,848
Fund Balance, June 30	**$ 3,355,523**	**$ 3,515,342**	**$ 3,173,442**	**$ 2,691,848**	**$ 2,604,920**

Components	2021	2022	2023	2024	2025
Nonspendable	$ 9,024	$ 8,873	$ 7,601	$ 9,845	$ 75
Restricted for					
Community education	1,250,320	1,509,947	1,303,552	1,098,021	1,116,339
ECFE	366,818	355,920	345,777	254,371	235,074
Adult basic education	466,993	448,418	431,145	324,223	393,536
School readiness	1,127,448	1,061,218	967,217	880,070	743,407
Community service	134,920	130,966	118,150	125,318	116,489
Total	**$ 3,355,523**	**$ 3,515,342**	**$ 3,173,442**	**$ 2,691,848**	**$ 2,604,920**

In 2025, fund balance decreased from $2,691,848 to $2,604,920. Revenues increased $65,369 primarily due to an increase in adult basic education (ABE) state entitlement. Expenditures decreased by $329,297 primarily due to a decrease in salaries, benefits, and transportation expenditures related to voluntary pre-kindergarten as these expenditures were recorded in the General Fund in 2025 with additional seats being awarded.

Independent School District No. 742
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.

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. 742
Emerging Issues

Executive Summary
The following is an executive summary of financial related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Accounting Standard Update – GASB Statement No. 103 – *Financial Reporting Model Improvements***
  GASB has issued GASB Statement No. 103 relating to changes in financial reporting requirements. The changes provide clarity, enhance the relevance of information, provide more useful information for decision-making, and provide for greater comparability amongst government entities.
- **Accounting Standard Update – GASB Statement No. 104 – *Disclosure of Certain Capital Assets***
  GASB has issued GASB Statement No. 104 relating to capital asset disclosures. The disclosures required by this Statement provide users of the financial statements with essential information about certain types of capital assets.

The following are extensive summaries of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your District.

Independent School District No. 742
Emerging Issues

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

The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

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

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

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

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

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

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

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

Information provided above was obtained from www.gasb.org.

Independent School District No. 742
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.