



**Independent School District No. 318
Grand Rapids, Minnesota**

Communications Letter

June 30, 2025

Independent School District No. 318
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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. 318
Grand Rapids, 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. 318, Grand Rapids, Minnesota, as of and for the year ended June 30, 2025, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 September 30, 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.

BerganKDV, Ltd.

St. Cloud, Minnesota
September 30, 2025

**Independent School District No. 318
Significant Deficiency**

Lack of Segregation of Accounting Duties

The District had a lack of segregation of accounting duties in the cash disbursements, receipts, and payroll processes due to a limited number of office employees. The lack of adequate segregation of accounting duties could materially affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. Although this meets the definition of a "significant deficiency", it may not be practical to correct since the costs of obtaining desirable segregation of accounting duties may exceed benefits that could be derived.

The Business Manager has full access to the general ledger as well as reconciles state aids and property tax revenues.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

We recommend management, along with the School Board, remain aware of this situation and continually monitor the accounting system including changes that occur.

**Independent School District No. 318
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, 2024. 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. 318
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 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.
- **Misappropriation of Assets and Management Override of Controls Through the Journal Entry Process** - This is considered a risk in substantially all engagements.
- **State Aid Valuation** - Revenue and receivable amounts related to General Education Aid and Special Education Aid are generally material to the financial statements and involve significant estimates.
- **Capital Assets Valuation** - Capital assets and related depreciation are material to the financial statements and involve significant estimates. In addition, the District had significant construction activity around year-end, so there is an increased risk related to completeness and proper cutoff of construction in progress and related payables.
- **Compensated Absences Valuation** - The compensated absences liability is generally material to the financial statements and involves 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.
- **Pension Valuation** - Net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions are generally material to the financial statements and involve significant estimates.

**Independent School District No. 318
Required Communication**

Significant Risks (Continued)

- Lease Valuation - Lease liability and right-to-use assets are material to the financial statements and involve significant estimates.

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to the basic financial statements. There has been no initial selection of accounting policies during 2024. The District amended its policy related to accounting for group asset purchases. 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 related 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 dependent on the availability of funds 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.

Compensated Absences - This balance is based on an actuarial study 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.

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

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

Lease Liability and Right-to-Use Lease Assets - These balances are based on estimates and judgments determined by the District related to amortization, the discount rate, lease term, and lease payments.

**Independent School District No. 318
Required Communication**

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

Significant Accounting Estimates and Related Disclosures (Continued)

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.

The following bullet point summarizes the uncorrected financial statement misstatement 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 Receivable/Revenue

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 and each opinion unit.

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. 318
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. 318
Financial Analysis**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours.

Average Daily Membership

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%

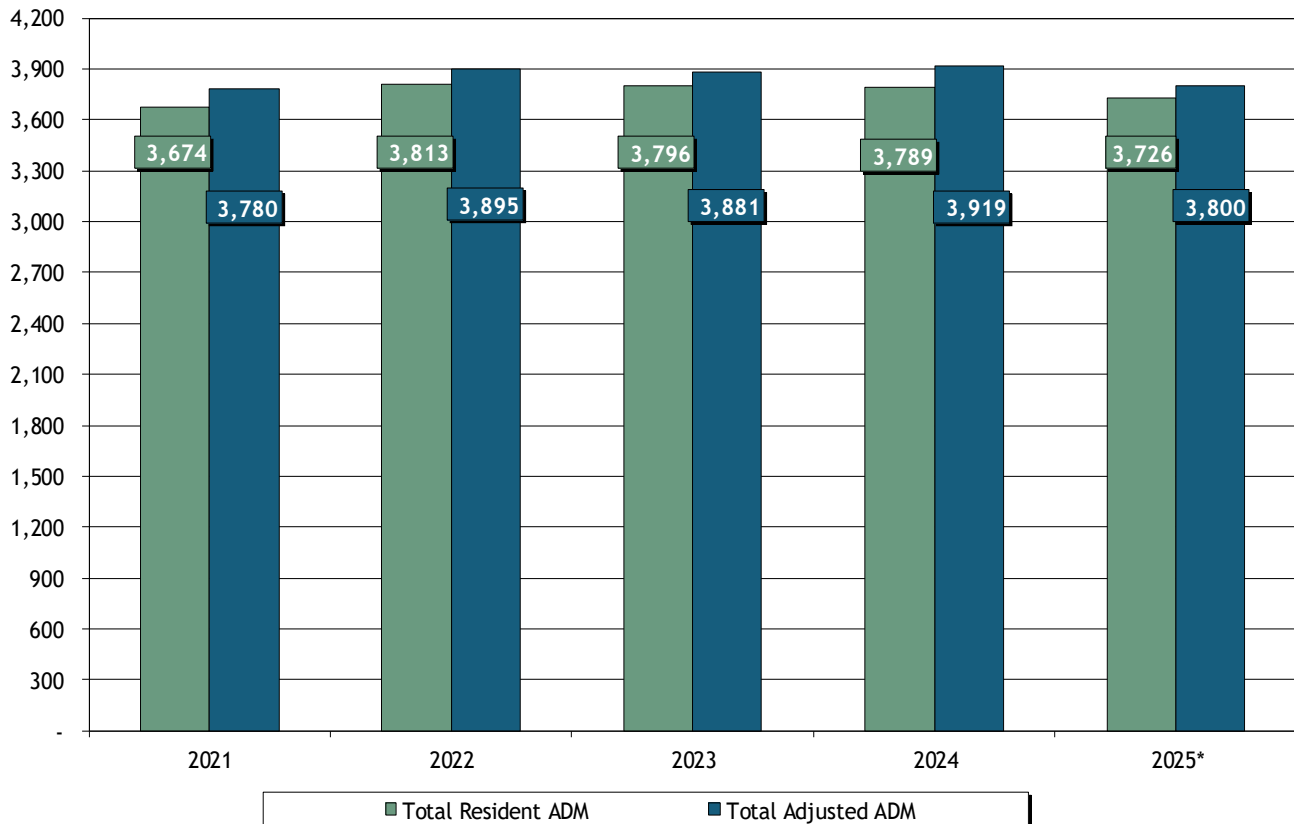
Independent School District No. 318 **Financial Analysis**

Average Daily Membership and Pupil Units

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

ADM	2021	2022	2023	2024	2025*
Other	113	118	115	72	93
Kindergarten	220	229	213	273	217
Elementary	1,545	1,627	1,665	1,672	1,633
Secondary	1,796	1,837	1,804	1,772	1,783
Total Resident ADM	3,674	3,813	3,796	3,789	3,726
Total Adjusted ADM	3,780	3,895	3,881	3,919	3,800

Students (ADM)



* Estimate as of September 15, 2025

As the charts above indicate, resident ADM decreased 63, or 1.7%, from 2024 to 2025, while total adjusted ADM decreased 112, or 3.0%. Total adjusted ADM is higher than resident ADM due to open enrollment gains.

Independent School District No. 318 Financial Analysis

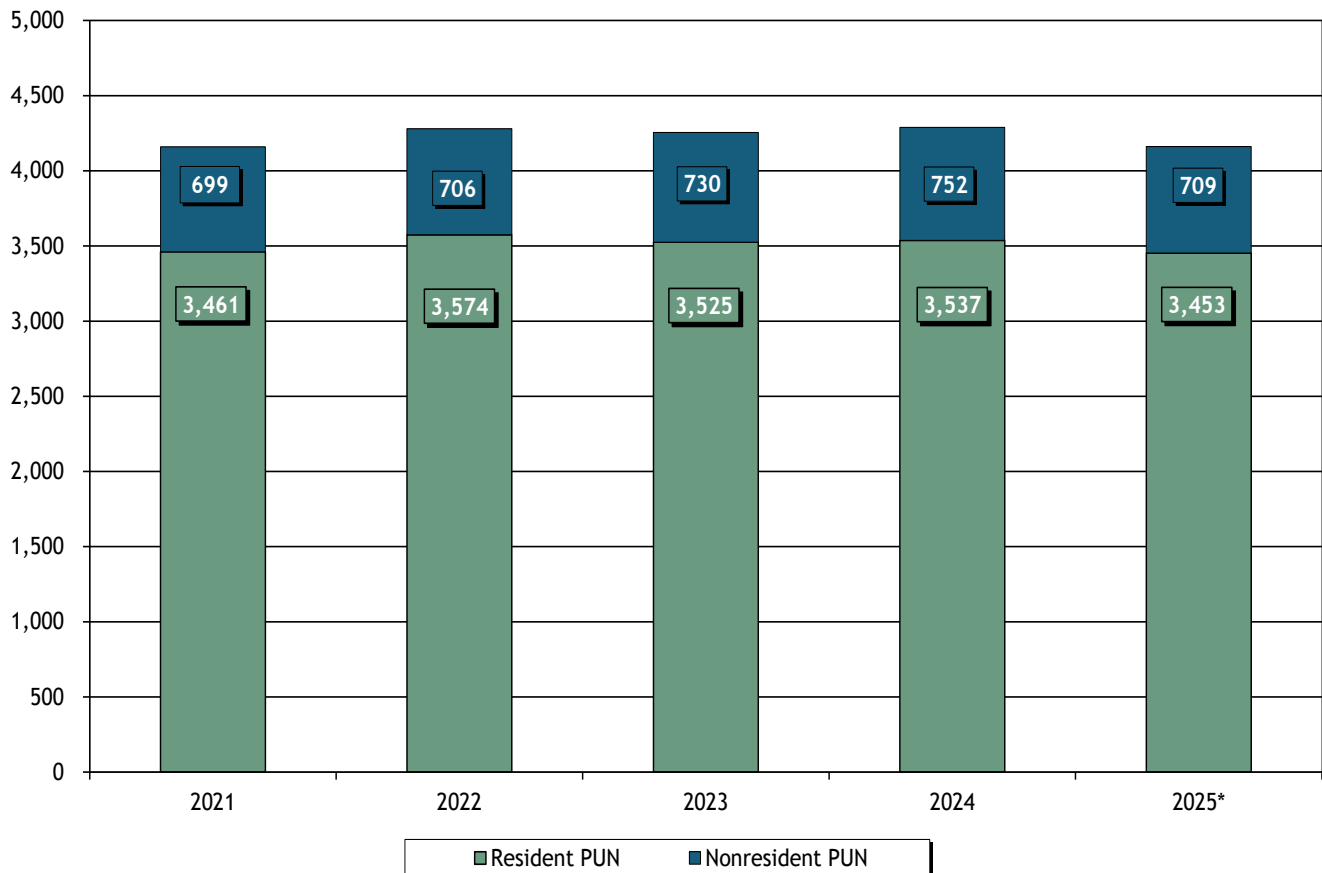
Average Daily Membership and Pupil Units (Continued)

Pupil Units Weighting					
	Pre-Kindergarten	Disabled Kindergarten	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6 Secondary
Year 2021-2025	1.000	1.000	1.000	1.000	1.000 1.200

The adjusted pupil units, table and graph below, converts the resident ADM into weighted or adjusted pupil unit data for the past five years, taking into consideration the above weighting factors and open enrollment. The District weighted pupil units decreased in 2025 by 127 units, or 3.0%. Since the majority of state aid is dependent on student counts, the change in students has a significant impact on the budget.

Adjusted PUN	2021	2022	2023	2024	2025*
Resident PUN	4,034	4,180	4,157	4,144	4,083
Nonresident PUN	699	706	730	752	709
Resident loss	(574)	(606)	(633)	(607)	(630)
Total Adjusted PUN	4,160	4,280	4,255	4,289	4,162

Students (PUN)



* Estimate as of September 15, 2025

Independent School District No. 318 Financial Analysis

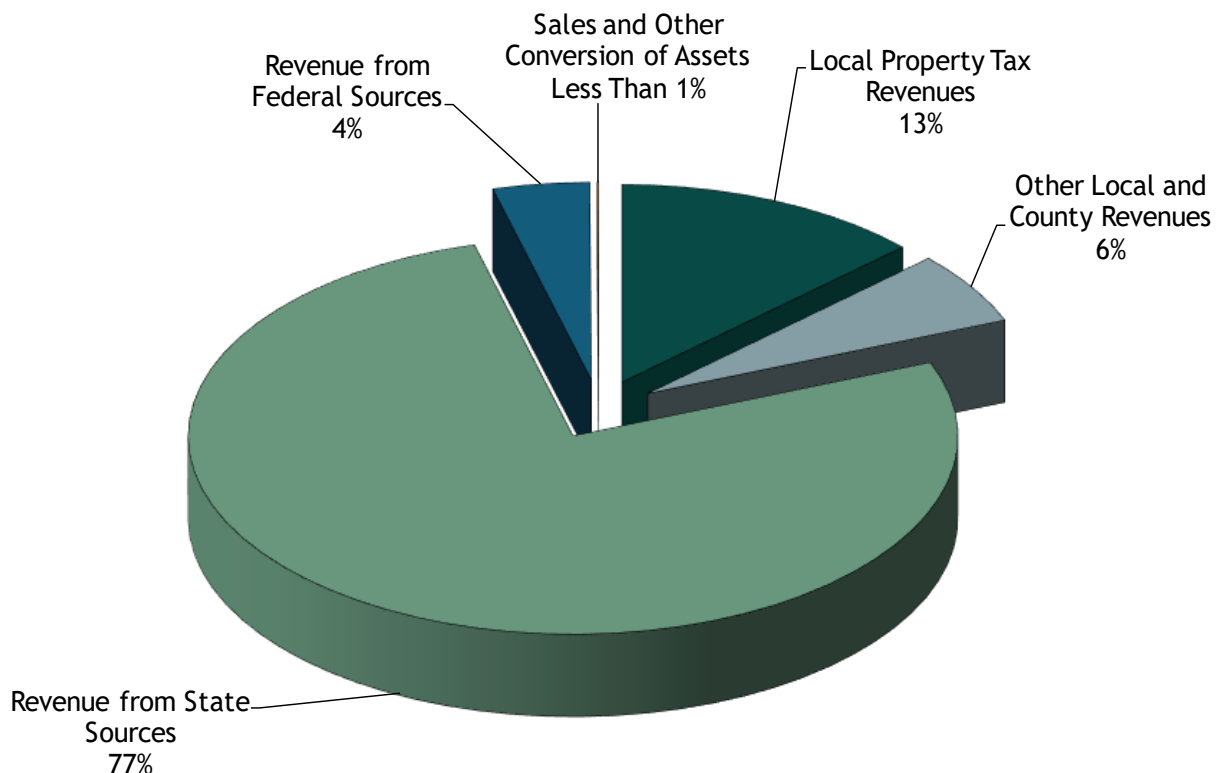
General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

For the Year Ended June 30,	2021	2022	2023	2024	2025
Local property tax revenues	\$8,579,205	\$8,748,195	\$9,196,424	\$8,295,651	\$ 8,647,628
Other local and county revenues	2,680,113	2,777,624	2,798,614	3,318,766	3,926,685
Revenue from state sources	40,133,044	41,159,823	42,435,446	49,499,255	51,072,423
Revenue from federal sources	4,577,683	5,215,313	5,165,069	5,913,435	2,698,769
Sales and other conversion of assets	41,397	86,374	41,130	53,981	44,967
Total	\$ 56,011,442	\$ 57,987,329	\$ 59,636,683	\$ 67,081,088	\$ 66,390,472

Overall, the District's General Fund revenues decreased \$690,616, or 1.0%, from 2024 to 2025. Revenue from federal sources decreased \$3,214,666 due to a decrease in Education Stabilization Funds; the final spending deadline for these funds was September 30, 2024. Revenue from state sources increased \$1,573,168 due to an increase in the state special education aid entitlement as expenditures increased and due to the use of federal aid for tuition bills. There were also several new grants including entitlements under the READ Act, solar and safe routes to schools grants, a Multi-Tiered System of Supports award, and energy transition aid. Other local and county revenues increased \$607,919 due to increases in interest earnings, medical assistance funding, and charges for services to other districts including outsourced business services. Local property tax revenues increased \$351,977 primarily due to an increase in the amount levied specifically for retirees health benefits.

2025 General Fund Sources of Revenue



Independent School District No. 318 Financial Analysis

Revenues Per Student

The table below shows a comparison of total revenue per ADM received by your District, districts with 3,000-5,000 ADM and all Minnesota school districts.

ISD No. 318	2021*	2022*	2023*	2024*	2025**
Property taxes	\$ 1,468	\$ 1,467	\$ 1,670	\$ 1,428	\$ 1,569
Other local sources	1,474	1,421	1,325	1,444	1,625
State aid	10,385	10,179	10,512	12,141	12,926
Federal aid	1,185	1,296	1,285	1,455	683
Total	\$ 14,512	\$ 14,363	\$ 14,792	\$ 16,468	\$ 16,803

District's with 3000-5000 ADM Served	2021*	2022*	2023*	2024*	2025**
Property taxes	\$ 1,976	\$ 1,941	\$ 2,083	\$ 2,241	N/A
Other local sources	495	792	758	933	N/A
State aid	10,464	10,745	10,755	12,089	N/A
Federal aid	897	1,375	1,132	842	N/A
Total	\$ 13,832	\$ 14,853	\$ 14,728	\$ 16,105	N/A

State-Wide	2021*	2022*	2023*	2024*	2025**
Property taxes	\$ 2,381	\$ 2,443	\$ 2,545	\$ 2,728	N/A
Other local sources	432	558	731	880	N/A
State aid	10,758	10,782	11,073	12,448	N/A
Federal aid	1,041	1,383	1,378	1,131	N/A
Total	\$ 14,612	\$ 15,166	\$ 15,727	\$ 17,187	N/A

* Amounts per State of Minnesota *School District Profiles*

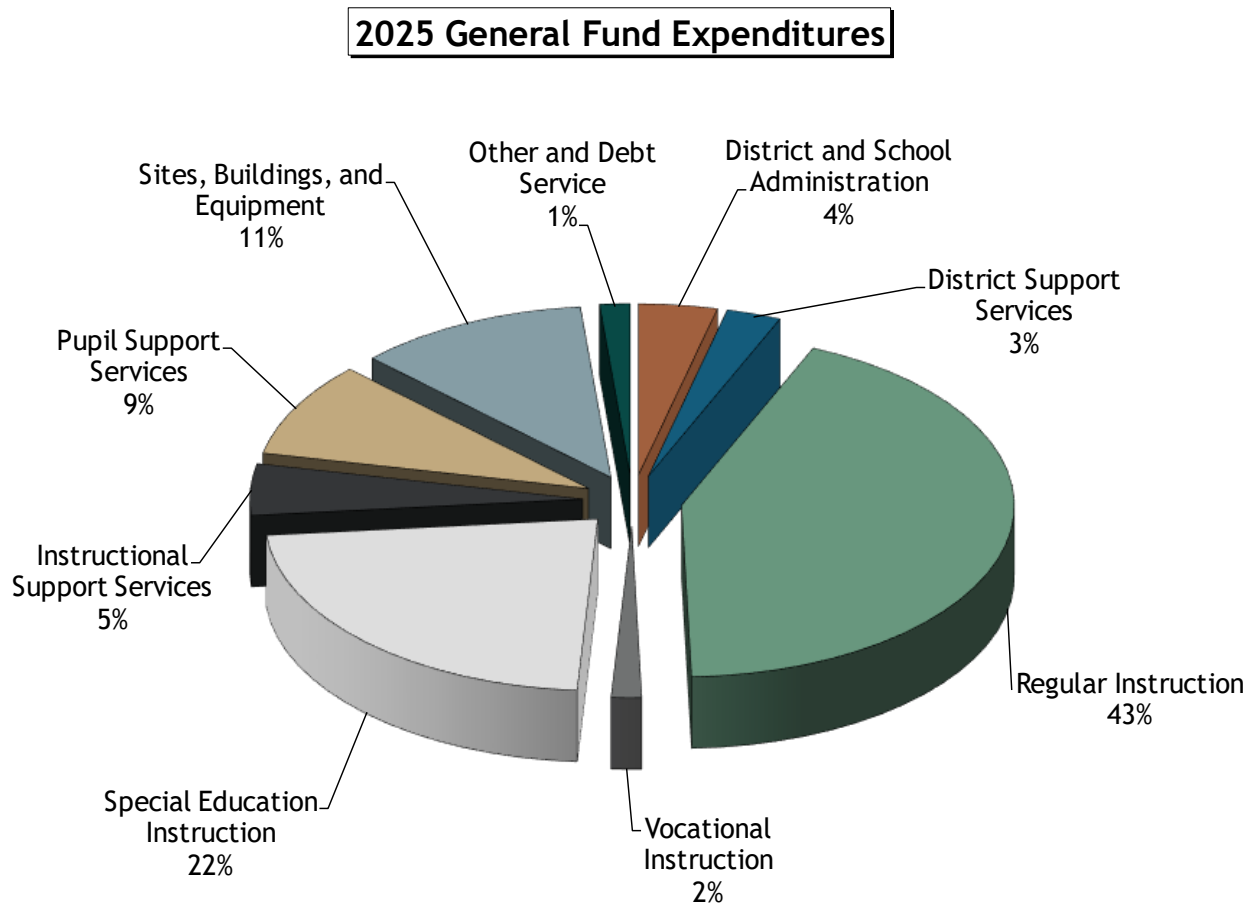
** Estimate. 2025 amounts other than District amounts are not yet available.

Independent School District No. 318 Financial Analysis

General Fund Expenditures

Overall, the District's General Fund expenditures increased \$3,936,137, or 6.5%. The increase was due to increases in salaries and benefits, which increased due to cost of living increases and step/lane movement as well as the District paying for \$2 million of retiree health costs from the General Fund in 2025. As noted on the following page, actual expenditures were within 1.3% of final budgeted expenditures.

The percentage of each expenditure classification is highlighted in the chart below.



Independent School District No. 318 Financial Analysis

General Fund Budget to Actual

The chart below presents the final budget and actual results for General Fund.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 8,084,000	\$ 8,043,000	\$ 8,647,628	\$ 604,628
Other local and county revenues	2,984,000	3,191,000	3,926,685	735,685
Revenue from state sources	49,210,000	49,507,000	51,072,423	1,565,423
Revenue from federal sources	4,460,000	2,885,000	2,698,769	(186,231)
Sales and other conversion of assets	125,000	150,000	44,967	(105,033)
Total revenues	64,863,000	63,776,000	66,390,472	2,614,472
Expenditures				
Administration	2,486,000	2,447,000	2,468,771	21,771
District support services	1,626,000	1,759,000	1,717,718	(41,282)
Elementary and secondary regular instruction	26,418,200	27,007,000	27,820,446	813,446
Vocational education instruction	892,000	918,000	948,140	30,140
Special education instruction	14,450,000	14,828,000	14,535,994	(292,006)
Instructional support services	3,587,000	3,204,000	3,127,913	(76,087)
Pupil support services	5,751,800	5,852,000	5,778,430	(73,570)
Sites and buildings	7,270,000	6,870,000	7,286,876	416,876
Food service	-	-	55,637	55,637
Fiscal and other fixed cost programs	1,030,000	339,000	333,195	(5,805)
Debt service	460,000	562,000	561,017	(983)
Total expenditures	63,971,000	63,786,000	64,634,137	848,137
Excess of revenues over (under) budget	892,000	(10,000)	1,756,335	1,766,335
Other Financing Sources	8,000	20,000	345,335	325,335
Net change in fund balances	\$ 900,000	\$ 10,000	\$ 2,101,670	\$ 2,091,670

Overall, there was a 4.1% variance between actual revenues of \$66,390,472 and the final amended budget of \$63,776,000. The largest budget variance occurred in revenue from state sources, which was over budget by \$1,565,423 due to conservative budgeting for general education aid based on conservative estimates for pupil units, as well as conservative budgeting for state special education aid. In addition, the District used a portion of federal special education funds for tuition to other districts, which increased state special education aid and was not reflected in the budget. The District also received new grants for the solar project and parking lot improvements. Revenues from other local and county sources were over budget \$735,685 due to conservative budgeting for amounts that can vary from year-to-year. Local property taxes were \$604,628 over budget due to conservative budgeting and not budgeting for taxes levied for retiree health benefits.

Independent School District No. 318
Financial Analysis

General Fund Budget to Actual (Continued)

Actual expenditures came in over budget in total by \$848,137, or 1.3%. The largest variance was in regular instruction, which was \$813,446 over budget primarily due to the District paying for \$2 million of retiree health costs from the General Fund in 2025, as noted earlier, which exceeded the amount budgeted. Sites and buildings expenditures were \$416,876 over budget due to variances in the timing of projects and the issuance of new leases for copiers and building space. A positive variance for other financing sources can also be seen related to the new leases.

Expenditures Per Student

The table below shows a comparison of expenditures per ADM by fund for your District, districts with 4,000 plus ADM and all Minnesota school districts.

ISD No. 318	2021*	2022*	2023*	2024*	2025**
General Fund	\$ 15,077	\$ 14,570	\$ 14,376	\$ 14,849	\$ 16,359
Food Service	419	532	586	666	699
Community Service	281	309	303	264	284
Building Construction	3,495	819	1,810	2,124	887
Debt Service	810	778	867	917	1,050
Post Employment Debt Service	1,208	1,162	1,168	1,159	1,193
Total	\$ 21,290	\$ 18,170	\$ 19,110	19,979	20,472

Districts of 4000+ ADM Served	2021*	2022*	2023*	2024*	2025**
General Fund	\$ 14,552	\$ 15,351	\$ 16,136	\$ 17,242	N/A
Food Service	513	650	684	777	N/A
Community Service	658	738	820	886	N/A
Building Construction	2,078	1,803	1,578	1,510	N/A
Debt Service	1,583	1,542	1,563	1,645	N/A
Post Employment Debt Service Fund	72	68	65	71	N/A
Total	\$ 19,456	\$ 20,152	\$ 20,846	\$ 22,131	N/A

State-Wide Average	2021*	2022*	2023*	2024*	2025**
General Fund	\$ 14,167	\$ 15,010	\$ 15,730	\$ 16,649	N/A
Food Service	529	666	702	801	N/A
Community Service	571	646	715	765	N/A
Building Construction	2,008	1,773	1,513	1,657	N/A
Debt Service	1,457	1,477	1,499	1,598	N/A
Post-Employment Debt Service	65	54	52	54	N/A
Total	\$ 18,797	\$ 19,626	\$ 20,211	\$ 21,524	N/A

* Amounts per State of Minnesota *School District Profiles*

** Estimate. 2025 amounts other than District amounts are not yet available.

Independent School District No. 318

Financial Analysis

General Fund Operations

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

For 2025, General Fund revenues decreased 1.0% while expenditures increased 6.5%. The General Fund experienced an overall increase in fund balance of \$2,101,670.

	2021	2022	2023	2024	2025
Revenues	\$ 56,081,369	\$ 57,987,329	\$ 59,636,683	\$ 67,081,088	\$ 66,390,472
Expenditures	(58,267,150)	(58,833,397)	(58,058,223)	(60,697,709)	(64,634,137)
Excess of revenues over (under) expenditures	(2,185,781)	(846,068)	1,578,460	6,383,379	1,756,335
Add other financing sources (uses)	11,993	12,006	172,581	190,700	345,335
Fund balance, July 1	7,871,833	5,698,045	4,863,983	6,615,024	13,189,103
Fund Balance, June 30	\$ 5,698,045	\$ 4,863,983	\$ 6,615,024	\$ 13,189,103	\$ 15,290,773

Components of Fund Balance					
Nonspendable	\$ 265,976	\$ 74,906	\$ 23,797	\$ 9,753	\$ 423,062
Restricted/reserved for					
Student Activities	142,902	151,887	179,279	182,075	186,301
Staff Development	-	-	-	4	-
Literacy Incentive Aid	-	-	-	199,846	340,899
American Indian Education Aid	-	-	-	9,109	25,087
Operating Capital	-	372,436	391,393	639,546	283,431
Area Learning Center	54,627	105,371	427,720	803,037	1,142,325
Gifted and Talented	19,261	10,903	13,361	1,298	42,272
English Learner	-	-	-	-	450
Basic Skills	-	-	51,124	2,730,160	3,458,217
School Library Aid	-	-	-	28,588	89,450
Achievement and Integration	124,283	127,028	83,350	86,376	-
Literacy Aid	-	-	-	-	131,522
Safe School Levy	-	(28,913)	-	-	-
Teacher Compensation for Read Act	-	-	-	-	22,854
LTFM	825,547	1,066,084	1,260,106	542,327	132,742
Student Support Personnel Aid	-	-	-	-	14,459
Medical Assistance	1,199,669	1,081,193	667,788	827,008	1,320,377
Payments in lieu of taxes	-	5,760	14,452	5,168	22,491
Assigned fund balance	1,531,560	1,059,823	905,889	966,060	1,720,410
Unassigned fund balance	1,534,220	837,505	2,596,765	6,158,748	5,934,424
Total Fund Balance, June 30	\$ 5,698,045	\$ 4,863,983	\$ 6,615,024	\$ 13,189,103	\$ 15,290,773

Unassigned fund balance as a percentage of expenditures	2.6%	1.4%	4.5%	10.1%	9.2%
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Independent School District No. 318 Financial Analysis

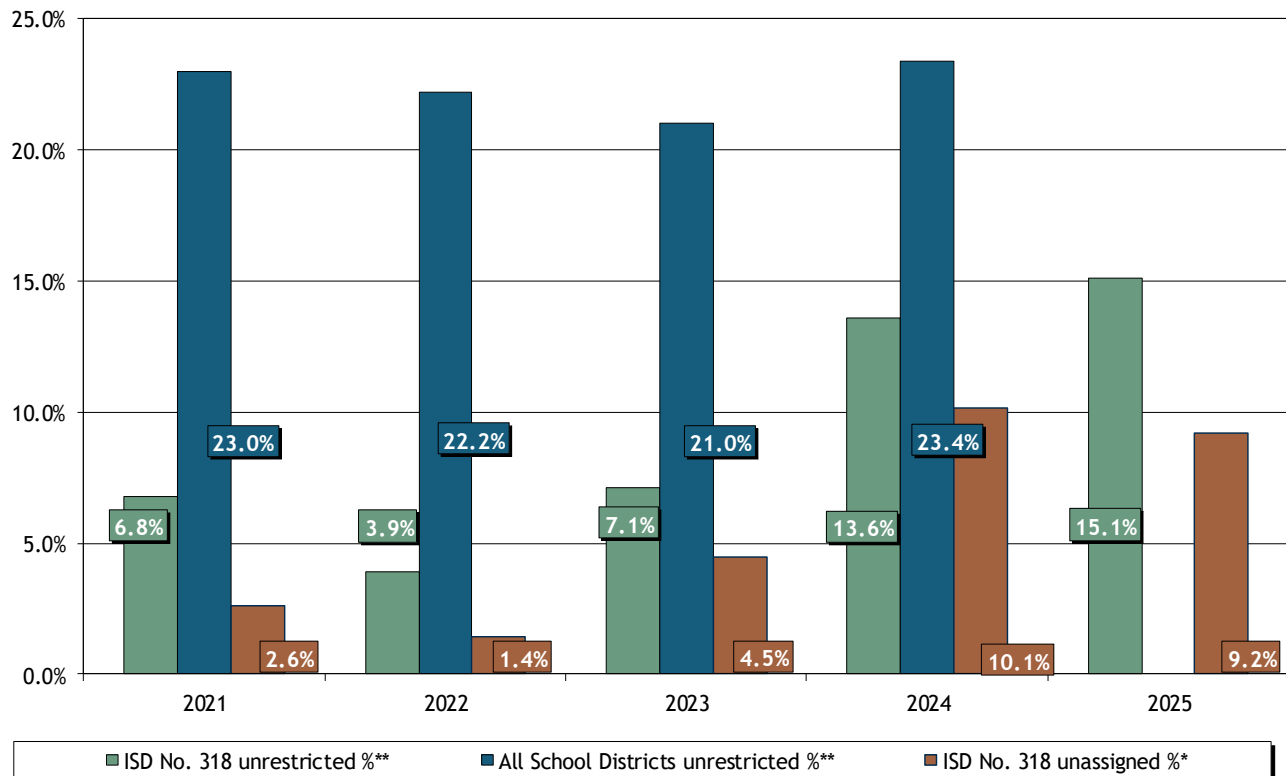
General Fund Operations (Continued)

As of June 30, 2025, the General Fund had a fund balance of \$15,290,773. Of this amount, \$423,062 represents nonspendable balances, \$7,212,877 represents restricted balances, and \$1,720,410 represents assigned balances, leaving an unassigned fund balance of \$5,934,424. Unassigned fund balance decreased by \$224,324 during 2025 and the ending balance represents 9.2% of total expenditures based on 2025 spending levels.

The District's fund balance policy states the District will maintain a minimum unassigned General Fund balance of 10-15% of the annual expenditures budget.

General Fund Financial Health

Fund Balance Percentages



Note: Figures for 2025 are not available for state-wide average.

- * The District's unassigned percentage is calculated using unassigned fund balance as a percentage of total expenditures for the fiscal year.
- ** Source: *Minnesota School District Financial Trends Report* for 2021-2024. The District's 2025 values were obtained from the 2025 Compliance Report. This calculation is based on unrestricted fund balance as a percentage of unrestricted expenditures.

The graph above details the unrestricted fund balance as a percentage of unrestricted expenditures. The District's fund balance as a percentage of expenditures has historically been lower than the average of all Minnesota school districts.

Independent School District No. 318
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	\$ 1,493,896	\$ 2,563,847	\$ 2,364,242	\$ 2,991,572	\$ 2,892,080
Expenditures	(1,617,815)	(2,140,229)	(2,354,258)	(2,705,959)	(2,761,451)
Excess of revenues over (under) expenditures	(123,919)	423,618	9,984	285,613	130,629
Add other financing sources	1,404	-	-	429	-
Fund balance, July 1	534,935	412,420	836,038	846,022	1,132,064
Fund Balance, June 30	\$ 412,420	\$ 836,038	\$ 846,022	\$ 1,132,064	\$ 1,262,693

Components of Fund Balance					
Nonspendable	\$ 98,291	\$ 61,060	\$ 85,582	\$ 83,590	\$ 128,551
Restricted for					
Food Service	314,129	774,978	760,440	1,048,474	1,134,142
Fund Balance, June 30	\$ 412,420	\$ 836,038	\$ 846,022	\$ 1,132,064	\$ 1,262,693

For 2025, food service revenues decreased \$99,492, or 3.3%, due to a decrease in sales to students. Expenditures increased \$55,492, or 2.1%, due to salary increases and the purchase of a freezer and food delivery box.

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	\$ 1,189,451	\$ 1,292,289	\$ 1,374,906	\$ 1,153,790	\$ 1,157,130
Expenditures	(1,087,651)	(1,244,611)	(1,218,152)	(1,071,246)	(1,121,847)
Excess of revenues over (under) expenditures	101,800	47,678	156,754	82,544	35,283
Add other financing sources	1,336	-	-	-	-
Fund balance, July 1	405,409	508,545	556,223	712,977	795,521
Fund Balance, June 30	\$ 508,545	\$ 556,223	\$ 712,977	\$ 795,521	\$ 830,804

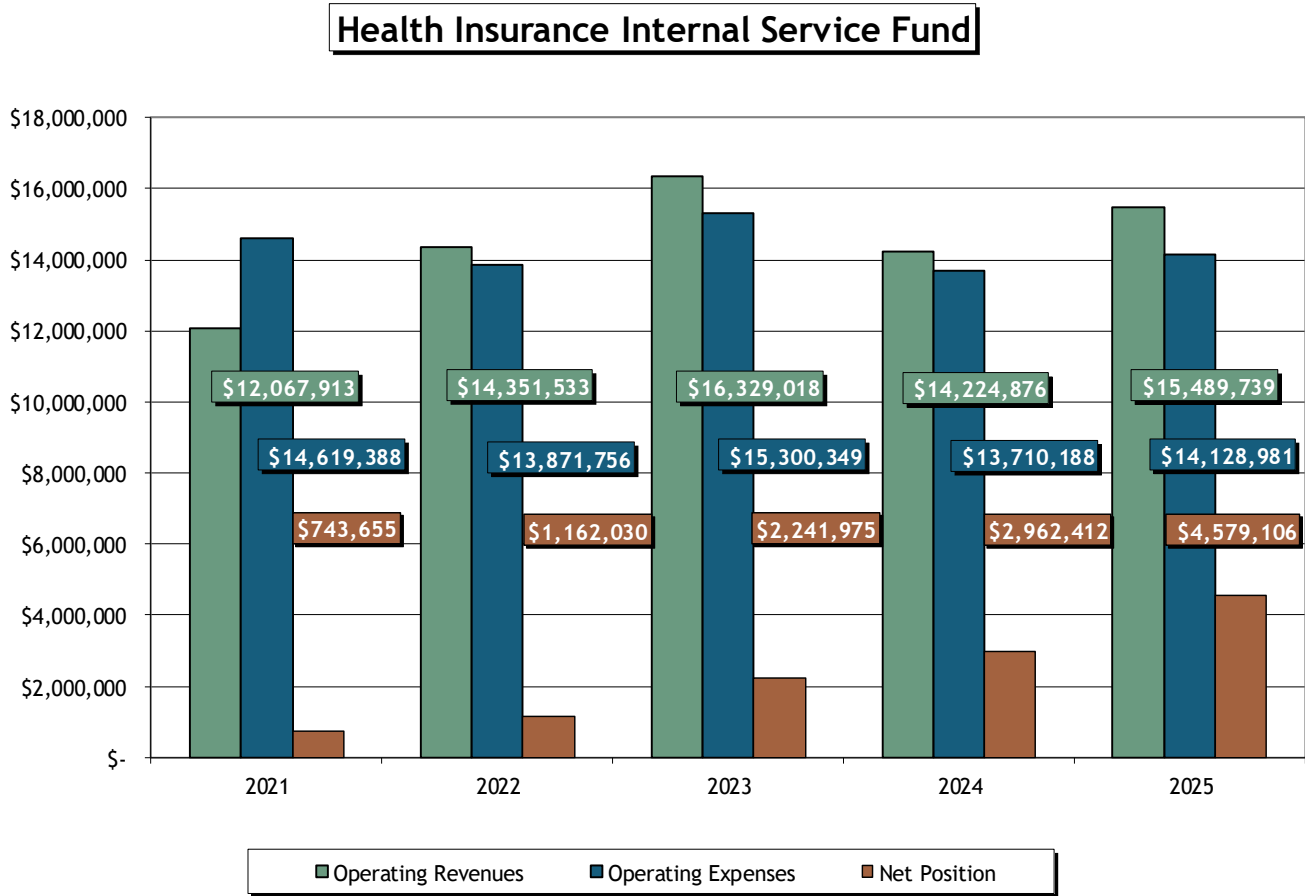
Components of Fund Balance					
Restricted fund balance	\$ 104,621	\$ 92,855	\$ 101,822	\$ 81,791	\$ 129,037
Restricted/reserved for					
Community Education	402,674	462,118	585,131	705,510	692,033
School Readiness	1,250	1,250	18,109	18,109	9,734
ECFE			7,915	(9,889)	-
Total Fund Balance, June 30	\$ 508,545	\$ 556,223	\$ 712,977	\$ 795,521	\$ 830,804

For 2025, community service revenues increased \$3,340, or 0.3%. Revenues from the state, taconite levy replacement, and fees from patrons increased, while federal revenues related to the safe routes to school grant decreased. Expenditures increased \$50,601, or 4.7%, primarily due to the refinishing of a gymnasium floor, which is rented out for community education activities.

**Independent School District No. 318
Financial Analysis**

Health Insurance Internal Service Fund

The following graph presents five years of comparative operating results for the District's Health Insurance Internal Service Fund.



Operating expenses exceeded operating revenues in 2021. Since 2022, operating revenues exceeded operating expenses each year.

The District's net position as a percentage of operating expenses increased from 5.1% in 2021 to 32.4% as of June 30, 2025. This compares to the District's net position goal of 35% of expenses.

Independent School District No. 318 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. 318
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. 318
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. 318 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. 318
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.