Management Report

for

Independent School District No. 719
Prior Lake, Minnesota

June 30, 2026

LB | CARLSON
Certified Public Accountants Business Consultants

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To the School Board and Management of
Independent School District No. 719,
Prior Lake-Savage Area Schools
Prior Lake, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 719, Prior Lake-Savage Area Schools' (the District) financial statements for the year ended June 30, 2026. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- General Fund Analysis
- Other District Funds
- Government-Wide Financial Statements
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the District, management, and those who have responsibility for oversight of the District's financial reporting process comments resulting from our audit and information relevant to school district financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

LB Carlson, LLP

LB CARLSON, LLP
Minneapolis, Minnesota

November 2, 2026

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the 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, 2026. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

The District is subject to a Single Audit of its federal awards expenditures for the year ended June 30, 2026, which is required to be performed in accordance with Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). It was originally planned that the Single Audit would be completed and issued along with the District's financial statement audit by December 31, 2026. However, issuance of the 2026 *Compliance Supplement* by the Office of Management and Budget has been delayed, and the final version is not yet issued. The 2026 *Compliance Supplement* guidance is effective for Single Audits of federal awards expenditures for the year ended June 30, 2026. Consequently, Single Audits for this period cannot be finalized until the final version of this guidance is issued. The District plans to issue its audited Schedule of Expenditures of Federal Awards and related reports separately when this guidance becomes available.

AUDIT OPINIONS AND FINDINGS

Based on our audit of the District's financial statements for the year ended June 30, 2026:

- We have issued unmodified opinions on the District's basic financial statements. Our report included a paragraph emphasizing the District's implementation of Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements* during the year. Our opinion was not modified with respect to this matter.

- We reported no deficiencies in the District's internal control over financial reporting that we considered to be material weaknesses.

- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

- We reported no findings based on our testing of the District's compliance with Minnesota laws and regulations.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Reconciliation of Employee Benefit Liabilities

During fiscal 2026, the District improved controls over the reporting and accounting of employee benefit liabilities by implementing additional reconciliation procedures for these liabilities within the general ledger and payroll system. These improvements were part of the District's response to verbal recommendations made by auditors during the prior year audit. These changes were also part of ongoing control activity improvements that are observed and upgraded on an annual basis by the Business Office. We commend the District for the improvements made in these controls and recommend the District continue to monitor financial activities in this manner to ensure these control improvements are applied in future reporting periods.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the fiscal year ended June 30, 2026. However, the District implemented the following governmental accounting standard during the year:

- The District implemented GASB Statement No. 103, *Financial Reporting Model Improvements* during the fiscal year ended June 30, 2026. This standard improved 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.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for the current fiscal year is not finalized until after the District has closed its financial records. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident district and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services, which are computed using formulas derived by the MDE. Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the District has closed its financial records. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Position for compensated absences. Management's estimate is based on current rates of pay, unused compensated absence balances, and the likelihood compensated absences will be paid out over the course of employment or at termination.

The District has recorded activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies primarily described in GASB Statement Nos. 68, 73, and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

The depreciation/amortization of capital assets involves estimates pertaining to useful lives.

The District's self-insured activities require recording a liability for claims incurred, but not yet reported, which are based on estimates.

We evaluated the key factors and assumptions used by management to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

During the year ended June 30, 2026, the District passed on the recording of an error correction to salaries and benefits payable at June 30, 2025 in the General Fund which was understated by an estimated amount of $587,411. This correction is related to improvements in controls over the reconciliation of employee benefit liabilities previously mentioned.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated November 2, 2026.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis and the budgetary, pension, and OPEB-related required supplementary information (RSI) that supplement 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.

We were engaged to report on the supplementary information accompanying the financial statements and the separately issued Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table, which is not RSI. With respect to this supplementary information, 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 financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and statistical section, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the District's governmental funds, which includes the General, food service, community service, and debt service. These funds are used to account for the various services the District provides, which are financed primarily with intergovernmental revenue and property taxes. The governmental fund information in the District's financial statements focuses on budgetary compliance and the sufficiency of each governmental fund's current assets to finance its current liabilities.

Governmental Fund Balances

The following table summarizes the changes in the fund balances of the District's governmental funds during the year ended June 30, 2026, presented both by fund balance classification and by fund:

Governmental Funds Change in Fund Balance

	Fund Balances as of June 30,		
	2026	2025	Change
Fund balances of governmental funds			
Total by classification			
Nonspendable	$ 265,949	$ 239,211	$ 26,738
Restricted	19,637,612	15,932,767	3,704,845
Assigned	752,684	525,332	227,352
Unassigned	11,709,066	9,609,877	2,099,189
Total governmental funds	$ 32,365,311	$ 26,307,187	$ 6,058,124
Total by fund			
General	$ 17,723,433	$ 13,530,161	$ 4,193,272
Food Service	3,825,388	3,118,109	707,279
Community Service	6,334,378	5,119,871	1,214,507
Debt Service	4,482,112	4,539,046	(56,934)
Total governmental funds	$ 32,365,311	$ 26,307,187	$ 6,058,124

In total, the fund balances of the District's governmental funds increased by $6,058,124 during the year. The majority of the increase was seen in the General Fund and Community Service Special Revenue Fund.

The increase in the restricted fund balances are for state funding restrictions, Medical Assistance, food service, and community service education. The increase in unassigned balance is within the General Fund.

GOVERNMENTAL FUNDS REVENUE

The following table presents all of the District's governmental funds revenue by source for the last two fiscal years. Other financing sources, such as proceeds from sales of capital assets, insurance recoveries, bond sales, loans, and interfund transfers are excluded.

Governmental Funds Revenue by Source

	2026		2025		Year-to-Year Change	
	Revenue	Percent of Total	Revenue	Percent of Total	Dollar Change	Percent Change
Property taxes	$ 34,510,196	21.1 %	$ 36,223,004	23.1 %	$ (1,712,808)	(4.7) %
State sources	110,551,569	68.1	102,596,463	65.6	7,955,106	7.8 %
Federal sources	3,554,234	2.2	3,887,285	2.5	(333,051)	(8.6) %
Other local sources						
Meal sales	1,568,183	1.0	1,962,944	1.3	(394,761)	(20.1) %
Community service fees	6,268,643	3.9	6,075,272	3.9	193,371	3.2 %
Investment earnings	1,667,516	1.0	1,737,252	1.1	(69,736)	(4.0) %
Other	4,317,710	2.7	3,989,292	2.5	328,418	8.2 %
Total revenue	$ 162,438,051	100.0 %	$ 156,471,512	100.0 %	$ 5,966,539	3.8 %

The District's governmental funds revenues for 2026 were $162,438,051, an increase of $5,966,539 (3.8 percent), from the prior year.

The mix of local and state revenues vary from year-to-year, primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies, due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

State sources increased $7,955,106 due to a growth in the basic formula allowance and special education funding. Property taxes decreased $1,712,808 due to a decrease in the approved levy for general property taxes.

BASIC GENERAL EDUCATION REVENUE

The table on the previous page illustrates the District's dependence on state aids and grants which provided 68.1 percent of its total governmental funds revenue in the current year. The largest single funding source for Minnesota school districts is basic general education aid. Each year, the 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 average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

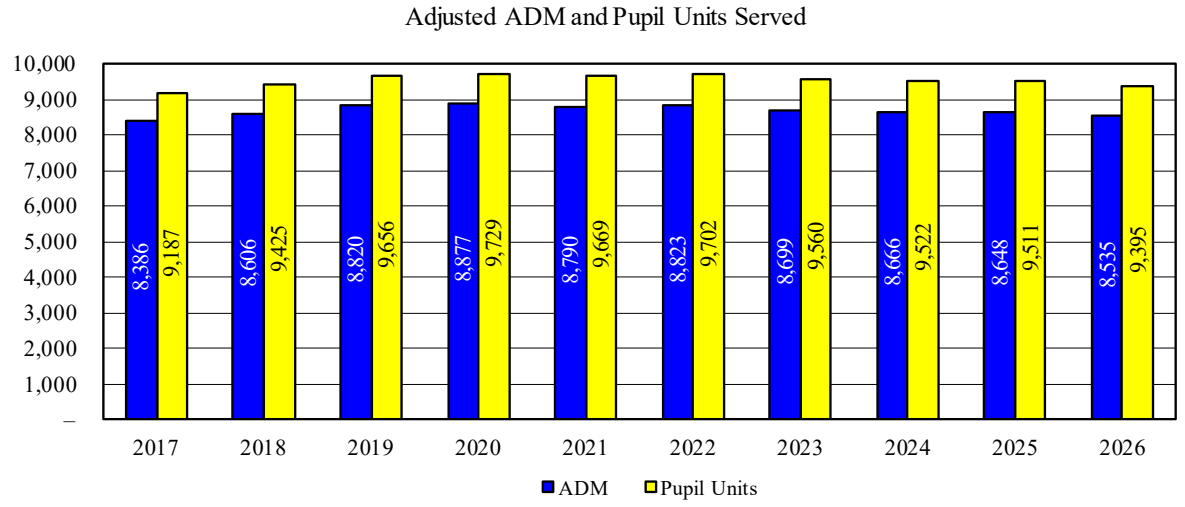
The table below presents a summary of the formula allowance for the past decade and as approved for the next fiscal year. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the "roll-in" of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual districts.

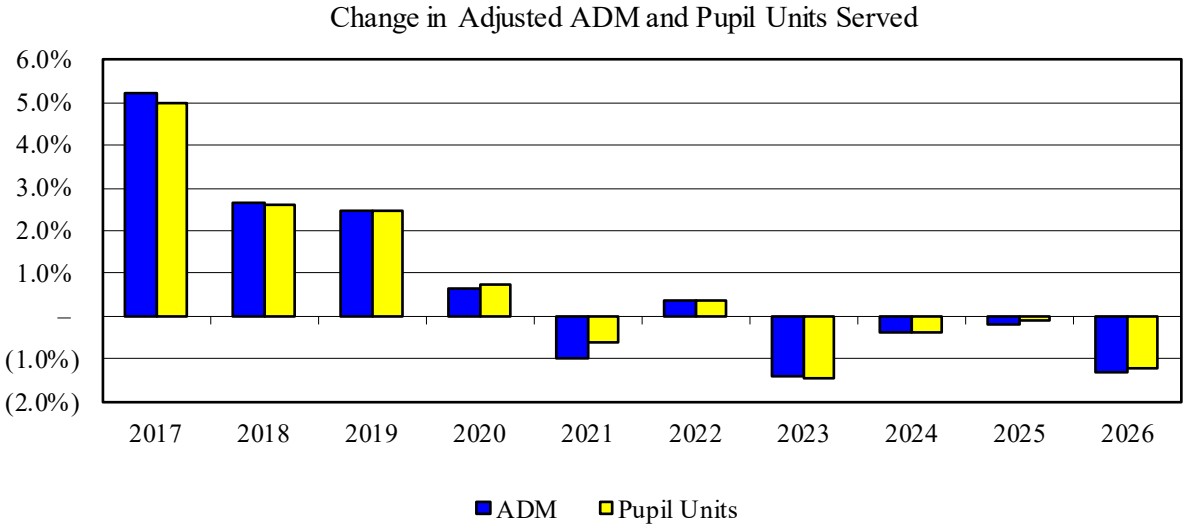
For fiscal 2026 and beyond, the annual formula increase will be adjusted for inflation, using a formula based on the Consumer Price Index-Urban (CPI-U) average inflation rate for the fourth calendar quarter of the immediately prior fiscal year compared to the average for the fourth calendar quarter of the second prior fiscal year, with a floor of 2.00 percent and a cap of 3.00 percent. This resulted in a per pupil increase to the basic formula allowance of $200 for fiscal 2026 and $202 for fiscal 2027.

Fiscal Year Ended June 30,	Formula Allowance	
	Amount	Percent Increase
2017	$ 6,067	2.00 %
2018	$ 6,188	2.00 %
2019	$ 6,312	2.00 %
2020	$ 6,438	2.00 %
2021	$ 6,567	2.00 %
2022	$ 6,728	2.45 %
2023	$ 6,863	2.00 %
2024	$ 7,138	4.00 %
2025	$ 7,281	2.00 %
2026	$ 7,481	2.75 %
2027	$ 7,683	2.70 %

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The number of students served by the District determines the amount of general education aid the District earns, and factors into various other funding formulas. The following graphs present the District's adjusted ADM and pupil units served for the past 10 years, along with the annual rates of change for both:





ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes, the impact of the prior year final adjustments which affect this year's revenue, and also the final adjustments caused by open enrollment gains and losses.

The District served an estimated adjusted ADM of 8,535 in 2026, a decrease of 113 from the previous year. The number of pupil units served by the District for fiscal 2026 was 9,395, a decrease of 116 (1.2 percent) from the prior year.

PROPERTY TAXES

The second largest revenue source Minnesota school districts depend on to support governmental fund activities is local property taxes. State legislative priorities, property values and types, and other factors impact the split of some revenue sources between state aids and property taxes. Additional local support through voter-approved operating or capital referenda may also impact the size of a district's annual levy. In the 2026 fiscal year, property taxes provided 21.1 percent of the District's total governmental funds revenue.

A unique aspect of Minnesota school district funding results from property taxes being levied and collected on a calendar year basis, while districts operate with a June 30 fiscal year-end. Generally, property taxes recognized as revenue by a district in a given fiscal year relate to the levy that is collectible during the calendar year that begins six-months prior to a district's fiscal year. The Minnesota Legislature utilizes a tool referred to as the "tax shift" which periodically changes the recognition of district property tax revenue. However, the net year-to-year impact of this shift has been minimal in recent years.

Property tax revenue realized by a district year-to-year will also be affected by cancellations or abatements of taxes levied, as well as collection delinquencies. These factors primarily disrupt the timing of revenues, as adjustments are made to future levy authority to recover abatements. However, some districts have experienced significant short-term budgetary challenges due to large abatement adjustments from market value declines in the commercial/industrial property class in recent years.

The following graph shows the District's annual certified property tax levy by fund for each of the past five fiscal years, along with the levy certified for collection during calendar year 2026, which will fund the District's 2027 fiscal year operations:



	2022	2023	2024	2025	2026	2027
Debt Service Fund	$16,080,810	$16,612,209	$15,721,883	$15,242,071	$15,323,809	$16,832,502
Community Service Fund	$650,366	$706,595	$759,774	$758,774	$845,612	$774,796
General Fund	$18,295,994	$18,618,647	$18,151,708	$19,990,679	$17,889,474	$18,053,900

The District's total certified property tax levy for fiscal year 2026 was $34,058,895, which represented a decrease of $1,932,629 compared to the prior year.

GOVERNMENTAL FUNDS EXPENDITURES

The District's governmental funds expenditures are classified into three types as follows:

- **Current** – These are typically the general operating type expenditures occurring on an annual basis, which are primarily funded by general sources, such as taxes and intergovernmental revenues.

- **Capital Outlay** – These expenditures represent the cost of acquiring, constructing, or maintaining the District's facilities and other significant capital assets. They are typically project-oriented and occur on a less consistent basis, often fluctuating significantly from year-to-year. These expenditures are primarily funded with various types of debt issues, or through specific capital or deferred maintenance property tax levies.

- **Debt Service** – Expenditures for debt service tend to be relatively consistent over the term of each individual debt issuance, but fluctuate based on changes in the volume of debt outstanding. Factors such as changing demographics, aging infrastructure, or evolving technology may impact a district's capital needs, and consequently its use of debt financing, over time.

The following table presents the District's governmental funds expenditures by type for the last two fiscal years. Other financing uses, such as bond refundings and transfers, are excluded.

Governmental Funds Expenditures by Type

	2026		2025		Year-to-Year Change	
	Expenditures	Percent of Total	Expenditures	Percent of Total	Dollar Change	Percent Change
Current						
Administration and district support	$ 9,443,049	6.0 %	$ 8,937,457	5.7 %	$ 505,592	5.7 %
Regular instruction	55,297,880	35.2	57,085,163	36.6	(1,787,283)	(3.1) %
Special and vocational education instruction	28,163,409	17.9	26,813,151	17.2	1,350,258	5.0 %
Community education instruction	13,517	–	12,007	–	1,510	12.6 %
Instructional support services	9,309,494	5.9	10,193,955	6.5	(884,461)	(8.7) %
Pupil support services	12,497,373	8.0	12,119,889	7.8	377,484	3.1 %
Sites, buildings, and other	10,260,925	6.5	9,247,388	5.9	1,013,537	11.0 %
Food service	6,263,443	4.0	6,411,038	4.1	(147,595)	(2.3) %
Community service	7,593,243	4.8	7,295,449	4.7	297,794	4.1 %
Total current	138,842,333	88.3	138,115,497	88.5	726,836	0.5 %
Capital outlay	116,349	0.1	113,249	–	3,100	2.7 %
Debt service	18,195,845	11.6	17,889,797	11.5	306,048	1.7 %
Total expenditures	$ 157,154,527	100.0 %	$ 156,118,543	100.0 %	$ 1,035,984	0.7 %

Total expenditures in the District's governmental funds for 2026 were $157,154,527, an increase of $1,035,984 (0.7 percent).

Special and vocational education instruction increased $1,350,258 due to an increase in salaries and employee benefits. Sites, buildings, and other increased $1,013,537 due to the District reduced spending in the prior year for capital expenditures.

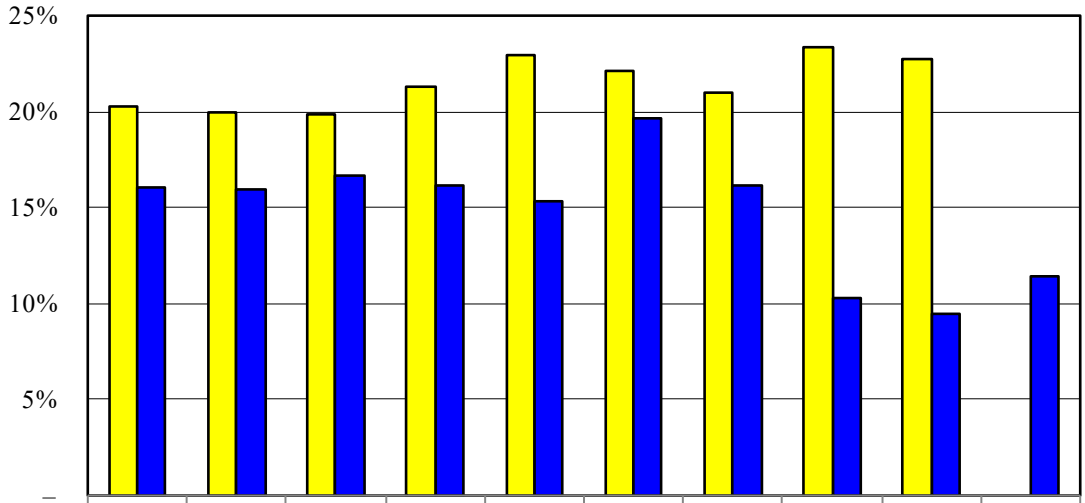
GENERAL FUND ANALYSIS

This section of the report focuses specifically on the financial trends and activities of the General Fund, which accounts for financial activity related to the basic services the District provides provided to the community. The primary services included within this fund include instructional services and support, administration and district support, pupil transportation and support, and the maintenance and operation of the District's facilities.

STATE-WIDE GENERAL FUND FINANCIAL HEALTH

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

State-Wide Unrestricted Operating Fund Balance
as a Percentage of Operating Expenditures



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
State-Wide	20.3%	20.0%	19.9%	21.3%	23.0%	22.2%	21.0%	23.4%	22.8%	–
ISD No. 719	16.1%	16.0%	16.7%	16.2%	15.4%	19.7%	16.2%	10.3%	9.5%	11.4%

Note: State-wide information is not available for fiscal 2026.

The calculation above reflects only the unrestricted fund balance of the General Fund, and the corresponding expenditures, which is the same method the state uses for the calculation of statutory operating debt. We have also included the comparable percentages for your district.

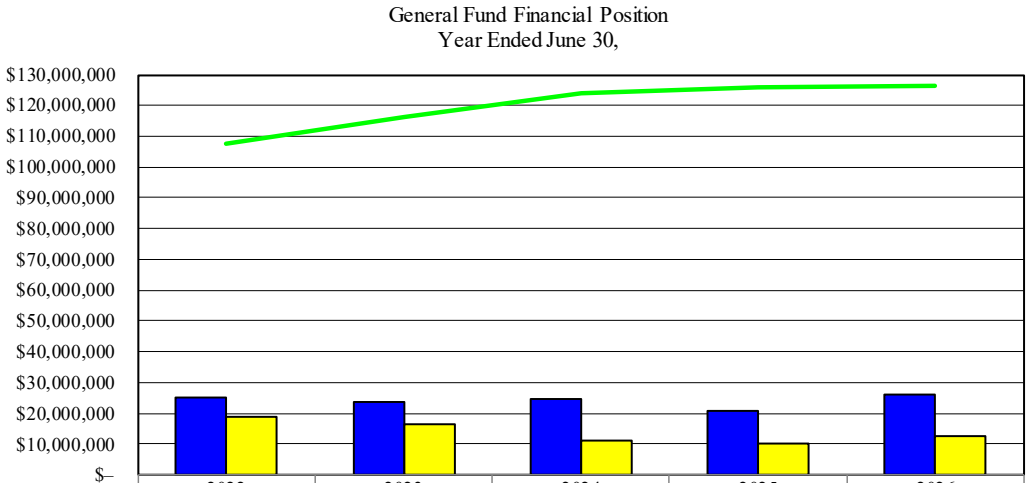
The state-wide average unrestricted fund balance as a percentage of operating expenditures for Minnesota school districts has fluctuated between 21.0 percent and 23.4 percent over the last five fiscal years for which data is available.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 9.5 percent at the end of the prior year, as compared to 11.4 percent at June 30, 2026.

Having an appropriate fund balance is an important factor in assessing the District's financial health because a government, like any organization, requires a certain amount of equity to operate. It is important to review fund balance levels on an ongoing basis to ensure a sufficient equity reserve is available to support programs and cash flow of the District.

GENERAL FUND FINANCIAL POSITION

The following graph displays the District's General Fund trends of financial position and changes in the volume of financial activity. Unrestricted fund balance and cash balance are two indicators of financial health, while annual expenditures are often used to measure the size of the operation.



	2022	2023	2024	2025	2026
Cash and Investments	$25,096,056	$23,716,901	$24,401,330	$20,677,323	$25,905,906
Unrestricted Fund Balance	$18,663,494	$16,287,140	$11,048,935	$10,135,209	$12,461,750
Expenditures	$107,755,132	$116,092,136	$123,901,616	$125,906,358	$126,280,817

The District ended fiscal year 2026 with a General Fund cash balance of $25,905,906 (net of borrowing and interfund receivables and payables), an increase of $5,228,583 from the previous year. Unrestricted fund balance (consisting of any committed, assigned, or unassigned fund balances) at year-end totaled $12,461,750, an increase of $2,326,541.

The following table presents the components of the General Fund balance for the past five years:

	June 30,				
	2022	2023	2024	2025	2026
Nonspendable fund balances	$ 337,873	$ 199,976	$ 231,408	$ 134,164	$ 145,453
Restricted fund balances (1)	3,013,679	2,812,203	3,672,308	3,260,788	5,116,230
Unrestricted fund balances					
Assigned	7,332,842	2,651,325	1,081,426	525,332	752,684
Unassigned	11,330,652	13,635,815	9,967,509	9,609,877	11,709,066
Total fund balance	$ 22,015,046	$ 19,299,319	$ 14,952,651	$ 13,530,161	$ 17,723,433
Unrestricted fund balances as a percentage of expenditures	17.3%	14.0%	8.9%	8.0%	9.9%
Unassigned fund balances as a percentage of expenditures	10.5%	11.7%	8.1%	7.6%	9.3%

(1) Includes deficits in restricted fund balance accounts allowed to accumulate deficits under UFARS, which are part of unassigned fund balance on the accounting principles generally accepted in the United States of America-based financial statements.

The table above reflects the total General Fund unrestricted fund balance and percentages, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula. The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

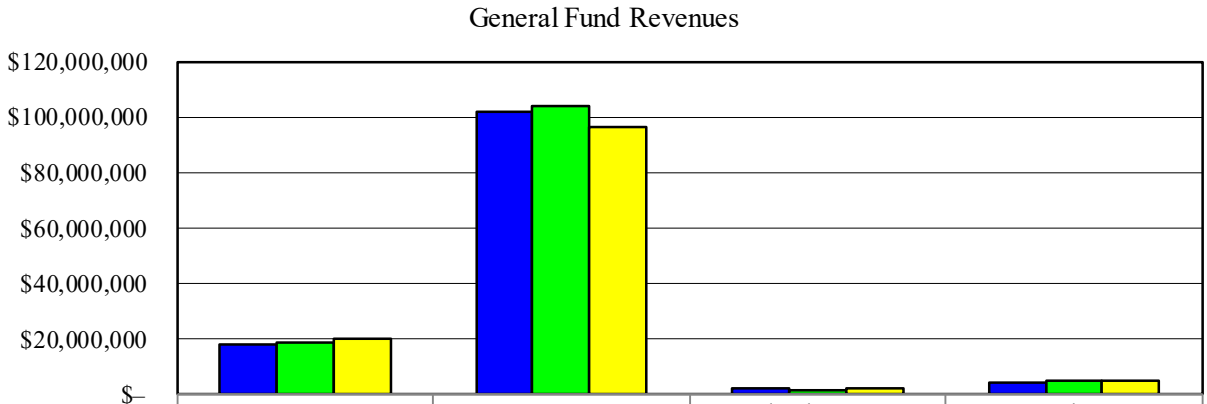
Minimum Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding maintaining a minimum fund balance for the General Fund. The policy states that the District will strive to maintain a minimum total unassigned General Fund balance of at least 8.0 percent of the annual budget (4–6 weeks of operating expenses).

At June 30, 2026, the unassigned fund balance of the General Fund was 9.3 percent of the fiscal 2026 General Fund expenditures.

GENERAL FUND REVENUES

The following graph summarizes the District's General Fund revenues for 2026:



	Property Taxes	State Sources	Federal Sources	Other
Budget	$18,156,650	$102,155,959	$2,174,384	$4,280,184
Actual	$18,497,168	$104,193,223	$1,838,082	$5,201,196
Prior Year	$20,337,890	$96,833,509	$2,419,053	$4,891,822

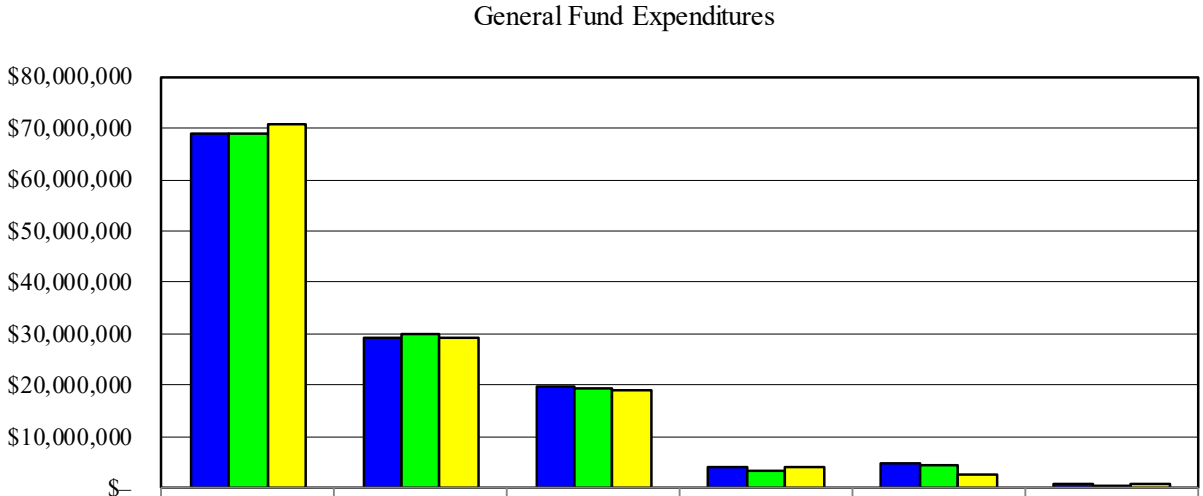
Total General Fund revenues were $129,729,669 for the year ended June 30, 2026, which was $2,962,492, or 2.3 percent, over the final budget.

State sources were over budget by $2,037,264, as state special education aid was higher than revenue projections.

Total General Fund revenues increased by $5,247,395 in fiscal year 2026. Revenue increases in the current year were mainly in state sources from increased funding in general education and special education aid. Property taxes decreased in the current year, the result of a decrease in the levy.

GENERAL FUND EXPENDITURES

The following graph presents the District's General Fund expenditures for 2026:



	Salaries	Employee Benefits	Purchased Services	Supplies	Capital	Other
Budget	$68,940,374	$29,166,120	$19,697,736	$3,897,672	$4,599,539	$597,734
Actual	$69,077,007	$30,049,847	$19,249,607	$3,269,547	$4,217,189	$417,620
Prior Year	$70,650,549	$29,142,796	$18,968,308	$3,856,142	$2,652,427	$636,136

Total General Fund expenditures were $126,280,817 for the year ended June 30, 2026, which was $618,358 under the final budget.

Instructional support services spending was less than projected as the District anticipated more costs for supplies and materials than were purchased.

Salaries and benefits were over budget by $1,020,360, mainly in special education instruction costs not anticipated in the budget. This was the result of higher than projected costs and additional staffing needs.

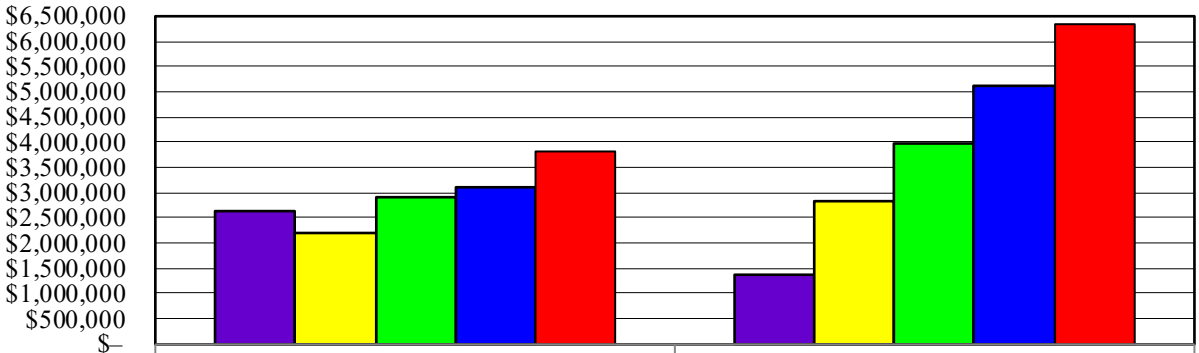
Total General Fund expenditures increased $374,459 from the previous year. Salaries and employee benefits decreased $666,491, mainly related to decreased staffing levels which were offset by contractual improvements. Capital expenditures were higher by $1,564,762 due to reduced spending in the prior year for long-term facilities maintenance.

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OTHER DISTRICT FUNDS

The following graph shows what is referred to as the other operating funds. The remaining nonoperating funds are only included in narrative form below, since their level of fund balance can fluctuate significantly, due to such things as issuing and spending the proceeds of refunding or building bonds and, therefore, the trend of fund balance levels is not necessarily a key indicator of financial health. It does not mean that these funds cannot experience financial trouble or that their fund balances are unimportant.

Other Operating Funds
Total Fund Balances



	Food Service Special Revenue	Community Service Special Revenue
2022	$2,650,299	$1,375,746
2023	$2,222,545	$2,816,913
2024	$2,923,495	$3,962,897
2025	$3,118,109	$5,119,871
2026	$3,825,388	$6,334,378

Food Service Special Revenue Fund

Revenues and other financing sources exceeded expenditures in the Food Service Special Revenue Fund by $707,279. This exceeded budgeted expectations by $985,927. Revenues were lower than budget projections by $671,428, primarily in meal sales following a switch in meal programming. State source revenue was higher than budget related to this switch as well. Expenditures were under budget by $1,627,175, mainly in supplies and materials totaling $1,236,198 related to this switch and implemented cost controls.

The ending fund balance of $3,825,388 represents 60.2 percent of current year expenditures.

Community Service Special Revenue Fund

The Community Service Special Revenue Fund had revenues exceeding expenditures by $1,214,507 in fiscal 2026, exceeding budget projections by $643,814. Revenues were more than budget projections by $287,993, mainly in investment earnings. Expenditures were less than budget by $355,821, mainly in purchased services.

The ending fund balance of $6,334,378 in this fund represents 83.2 percent of current year expenditures.

Over the years, we have emphasized to our clients that food service and community service operations should be self-sustaining and should not become an additional burden on general education funds.

Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. The Debt Service Fund expenditures exceeded revenues by $56,934. The remaining fund balance of $4,482,112 at June 30, 2026, is available for meeting future debt service obligations.

INTERNAL SERVICE FUNDS

Other Post-Employment Benefits Fund

The Other Post-Employment Benefits Internal Service Fund was established to provide a source of funds to finance current and future benefit obligations to employees. At June 30, 2026, this fund had a deficit net position of ($7,307,478).

The most recent independent actuarial study dated July 1, 2025, computed the present value of these benefits. The long-term liability represents total OPEB pension benefit obligations based on actuarial estimates. The District developed a strategy for funding this post-employment benefit liability. This funding is built into the ongoing annual budget. This strategy includes how the District plans to avoid future reductions of regular programming that would be necessary to pay for these post-employment benefits.

Self-Insurance Fund

This fund accounts for the District's self-insured medical and dental insurance program. Net position in this fund increased $316,667, resulting in a net position of $9,861,106 at June 30, 2026. Health insurance premium rates and other revenues were similar to increases in insurance claim payments and administrative expenses in the current year. Investment earnings were $332,873 in the current year.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents district resources available for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, this statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized reconciliation of the District's governmental fund balances to net position, and the separate components of net position for the last two years:

	June 30,		
	2026	2025	Change
Net position – governmental activities			
Total fund balances – governmental funds	$ 32,365,311	$ 26,307,187	$ 6,058,124
Total capital assets, net of depreciation/amortization	239,976,801	246,961,594	(6,984,793)
Total bonds, financed purchases, leases, subscription liabilities, and (premiums) discounts	(126,505,425)	(140,177,271)	13,671,846
Pension liability, net of deferments	(58,993,775)	(62,666,115)	3,672,340
Compensated absences	(6,482,013)	(7,334,566)	852,553
Other adjustments	285,082	(679,415)	964,497
Total net position – governmental activities	$ 80,645,981	$ 62,411,414	$ 18,234,567
Net position			
Net investment in capital assets	$ 113,251,507	$ 106,049,812	$ 7,201,695
Restricted	17,624,228	13,784,088	3,840,140
Unrestricted	(50,229,754)	(57,422,486)	7,192,732
Total net position	$ 80,645,981	$ 62,411,414	$ 18,234,567

Some of the District's fund balances translate into restricted net position by virtue of external restrictions (statutory restrictions) or by the nature of the fund they are in (e.g., Food Service Special Revenue Fund balance can only be spent for food service program costs). The unrestricted net position category consists mainly of the General Fund unrestricted fund balances, offset against noncapital long-term obligations, such as compensated absences payable, net pension, and total OPEB liabilities.

The District's net investment in capital assets increased $7,201,695. This change generally relates to the relationship between the rate capital assets are being added and depreciated/amortized, and the rate at which the District is repaying the debt issued to purchase or construct those assets. The increase in the current year was also impacted by capital additions financed with available resources and capital-related levies, which do not result in additional capital-related debt.

The increase in restricted net position is related to increases in amounts restricted for state funding restrictions, Medical Assistance, food service, and community service. Unrestricted net position increased $7,192,732, mainly due to the increase in the General Fund unassigned fund balance and the change in the state-wide funding of pension liabilities, net of deferments, including the District's proportionate share of the Teachers Retirement Association and Public Employees Retirement Association state-wide pension plans.

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ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years.

GASB STATEMENT NO. 105, *SUBSEQUENT EVENTS*

The primary objective of this statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users.

This statement defines subsequent events as transactions or other events that occur after the date of the financial statements, but before the date the financial statements are available to be issued. This statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This statement also requires the date through which subsequent events have been evaluated to be disclosed.

This statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events.

The requirements of this statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

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