Management Report

for

Independent School District No. 12
Centennial Schools
Circle Pines, Minnesota

June 30, 2026

LB | CARLSON
Certified Public Accountants Business Consultants

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LB | CARLSON

To the School Board and Management of
Independent School District No. 12
Circle Pines, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 12's (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 with 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

October 27, 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. Single Audits have a federal deadline of March 31, 2027. The District plans to issue its audited Schedule of Expenditures of Federal Awards and related reports separately by this deadline.

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.

- We reported no deficiencies in the District's internal control over financial reporting that we considered to be material weaknesses. It should be understood that internal controls are never perfected, and those controls which protect the District's funds from such things as fraud and accounting errors, need to be continually reviewed by your management and modified as necessary.

- 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

Internal Controls Over Vendors

A relatively common method of attempting to defraud local governments involves inducing them to pay claims from fictitious vendors for goods or services that were never provided. Strong safeguards over adding new vendors or making changes to existing vendors within the government's accounts payable system is an important control to help mitigate this risk. Some considerations in this area include:

- Limiting the number of employees with access to add or alter vendor records within the accounts payable system,
- Requiring vendor additions or changes to be reviewed and approved by supervisory personnel, preferably one not directly involved in processing accounts payable,
- Verifying the legitimacy of vendors by obtaining a W-9 or other means,
- Verifying any changes to vendor address or banking information prior to processing payments, and
- Periodically reviewing the vendor listing to remove inactive vendors from the system.

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 Governmental Accounting Standards Board (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 Minnesota Department of Education (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, 74, 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.

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 October 27, 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 Schedule of Expenditures of Federal Awards and Uniform Financial Accounting and Reporting Standards Compliance Table, which are 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, special revenue, and debt service funds. 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	$ 116,318	$ 130,954	$ (14,636)
Restricted	25,763,272	22,043,339	3,719,933
Assigned	31,936,864	27,967,806	3,969,058
Unassigned	25,788,483	24,669,643	1,118,840
Total governmental funds	$ 83,604,937	$ 74,811,742	$ 8,793,195
Total by fund			
General	$ 73,660,108	$ 66,089,467	$ 7,570,641
Debt Service	3,856,478	3,254,688	601,790
Nonmajor funds			
Food Service	3,059,517	2,657,552	401,965
Community Service	3,028,834	2,810,035	218,799
Total governmental funds	$ 83,604,937	$ 74,811,742	$ 8,793,195

In total, the fund balances of the District's governmental funds increased by $8,793,195 during the year. The majority of the increase was due to positive operating results in 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	$ 28,583,909	20.9 %	$ 28,058,289	20.8 %	$ 525,620	1.9 %
State sources	90,278,992	65.9	88,621,690	65.6	1,657,302	1.9 %
Federal sources	4,627,239	3.4	4,652,078	3.4	(24,839)	(0.5) %
Other local sources						
Meal sales	581,629	0.4	584,454	0.4	(2,825)	(0.5) %
Community service fees	5,851,073	4.3	5,196,549	3.8	654,524	12.6 %
Investment earnings	3,128,132	2.3	3,997,216	3.0	(869,084)	(21.7) %
Other	3,851,524	2.8	4,063,112	3.0	(211,588)	(5.2) %
Total revenue	$ 136,902,498	100.0 %	$ 135,173,388	100.0 %	$ 1,729,110	1.3 %

The District's governmental funds revenues for 2026 were $136,902,498, an increase of $1,729,110 (1.3 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 $1,657,302 due to a growth in the general education basic formula allowance and special education funding. Property taxes increased $525,620 due to an increase in the certified levy for General Fund and Community Service Special Revenue Fund operations. Community service fees increased $654,524 due to the increase in participation with more program offerings in the current year. Investment earnings decreased $869,084 due to less debt escrow funds being invested in the current year with the refunding bond payment in the previous year.

BASIC GENERAL EDUCATION REVENUE

The table on the previous page illustrates the District's dependence on state aids and grants which provided 65.9 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.

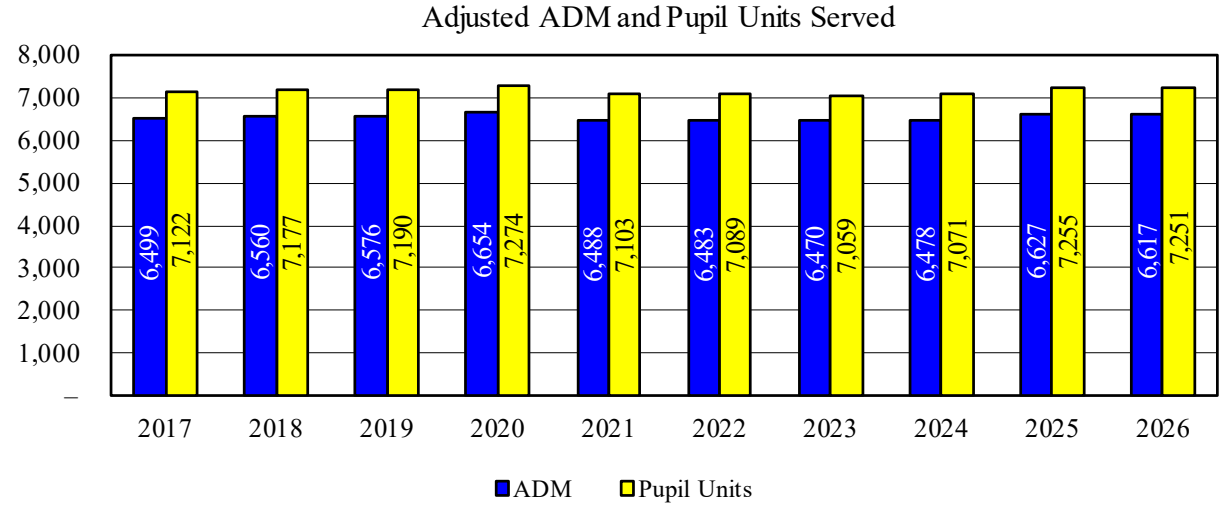
The table below presents a summary of the formula allowance for the past decade and as approved for the next fiscal year. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the "roll-in" of aids that were previously funded separately, and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

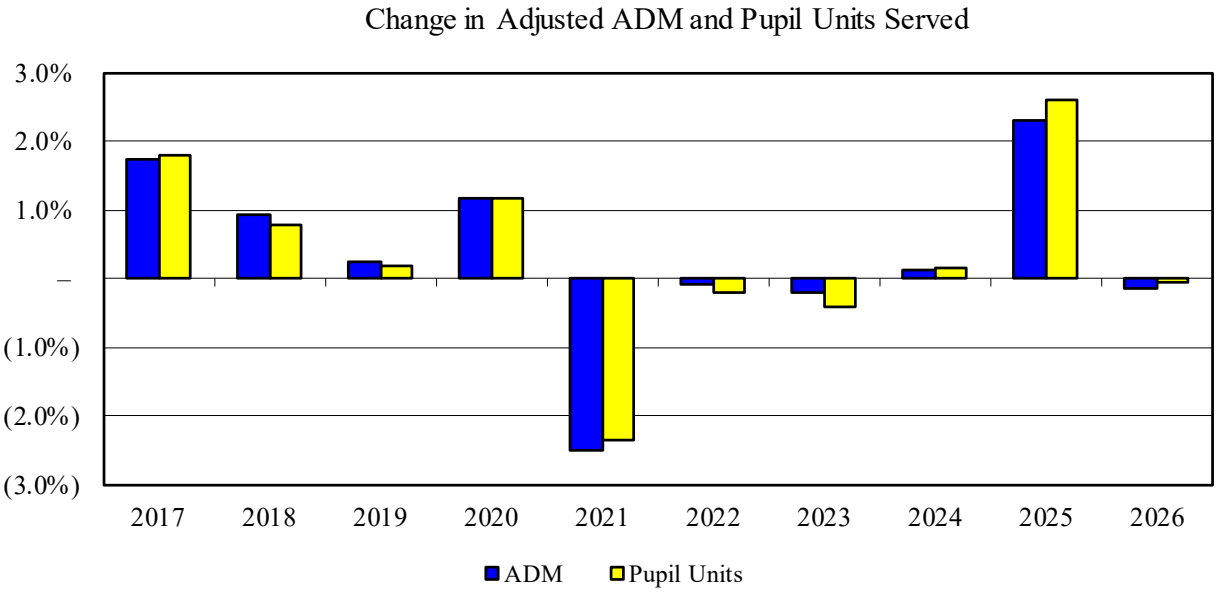
For fiscal 2026 and beyond, the annual formula increase will be adjusted for inflation, using a formula based on the Consumer Price Index-Urban (CPI-U) average inflation rate for the fourth calendar quarter of the immediately prior fiscal year compared to the average for the fourth calendar quarter of 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 6,617 in 2026, a decrease of 10 from the previous year. The number of pupil units served by the District for fiscal 2026 was 7,251, a decrease of 4 (0.1 percent) from the prior year.

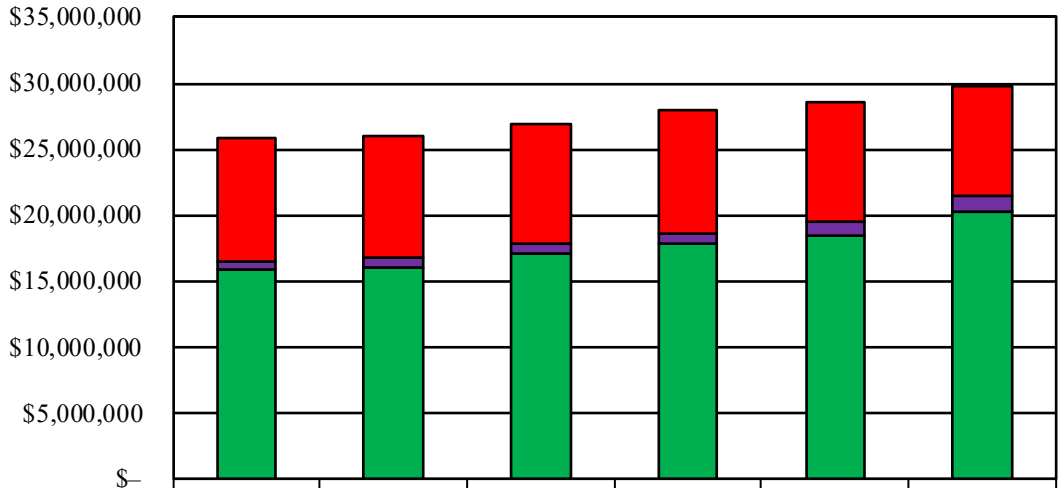
PROPERTY TAXES

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 20.9 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	$9,332,711	$9,319,820	$9,115,752	$9,398,878	$9,154,648	$8,237,111
Community Service Fund	$678,784	$658,154	$657,440	$724,531	$985,158	$1,191,835
General Fund	$15,839,645	$16,079,742	$17,131,307	$17,813,924	$18,492,721	$20,283,082

The District's total certified property tax levy for fiscal year 2026 was $28,632,527, which represented an increase of 2.5 percent compared to the prior year. The District's has set a total certified property tax levy for fiscal year 2027 at $29,712,028, which represents an increase of 3.8 percent compared to the fiscal year 2026 levy.

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	$ 6,321,358	4.9 %	$ 5,789,922	4.5 %	$ 531,436	9.2 %
Regular instruction	45,311,914	35.2	42,900,847	33.0	2,411,067	5.6 %
Special and vocational education instruction	25,036,051	19.5	24,041,668	18.5	994,383	4.1 %
Instructional support services	4,662,540	3.6	4,946,689	3.8	(284,149)	(5.7) %
Pupil support services	10,984,764	8.5	10,049,783	7.7	934,981	9.3 %
Sites, buildings, and other	8,992,660	7.0	8,776,760	6.8	215,900	2.5 %
Food service	5,397,756	4.2	4,964,480	3.8	433,276	8.7 %
Community service	7,635,947	5.9	7,286,137	5.6	349,810	4.8 %
Total current	114,342,990	88.8	108,756,286	83.7	5,586,704	5.1 %
Capital outlay	4,109,458	3.3	9,528,585	7.3	(5,419,127)	(56.9) %
Debt service	10,172,008	7.9	11,673,861	9.0	(1,501,853)	(12.9) %
Total expenditures	$ 128,624,456	100.0 %	$ 129,958,732	100.0 %	$ (1,334,276)	(1.0) %

Total expenditures in the District's governmental funds for 2026 were $128,624,456, a decrease of $1,334,276 (1.0 percent).

Total current spending was up as anticipated in the budget with inflationary changes for salaries, benefits, purchased services, and supplies. Capital outlay spending was down in the current year with the undertaking of some significant facilities maintenance projects in the prior year. Debt service spending was also down with the successful refunding (refinancing) of bonds in recent years and the ongoing payment of outstanding debt.

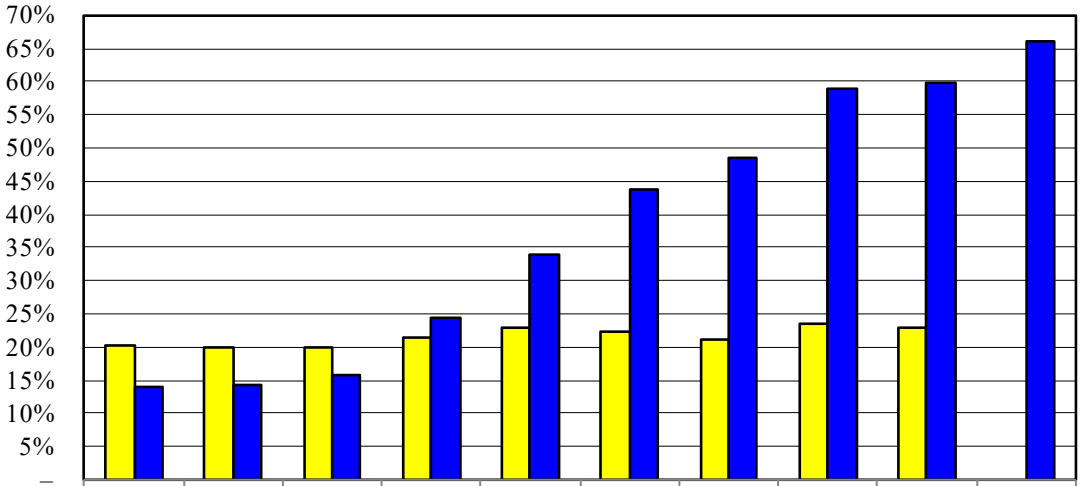
GENERAL FUND ANALYSIS

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. 12	14.1%	14.2%	15.9%	24.5%	34.1%	43.9%	48.6%	58.8%	59.8%	66.1%

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.

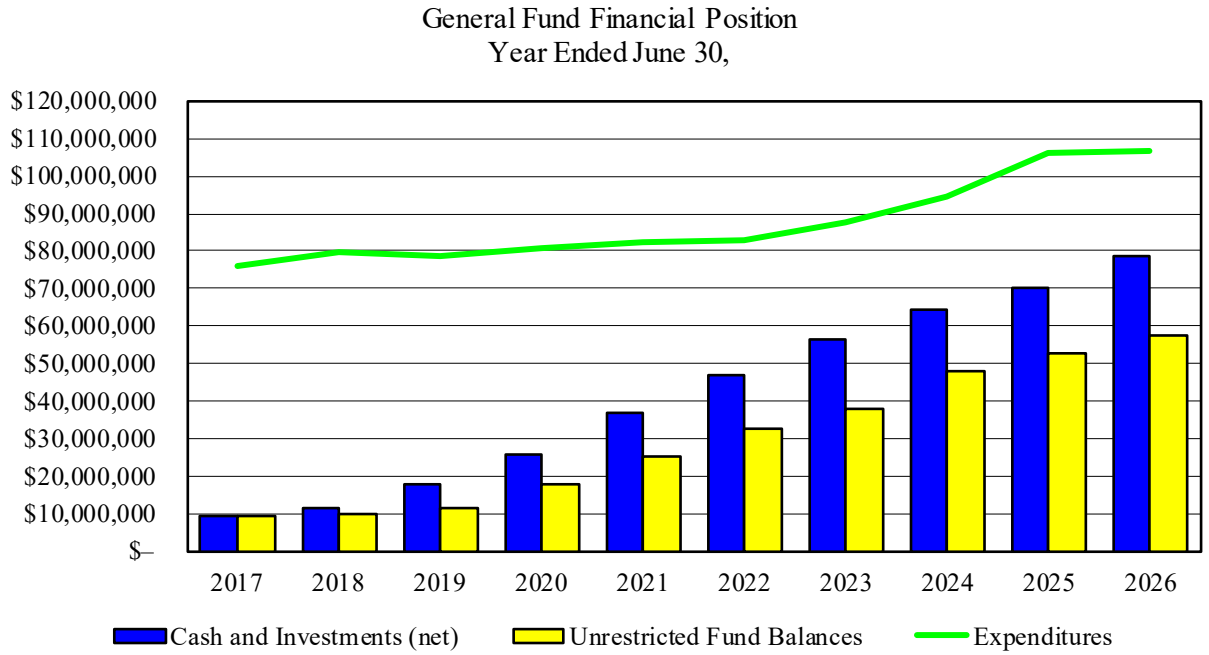
The state-wide average unrestricted fund balance as a percentage of operating expenditures for Minnesota school districts has fluctuated between 21.0 percent and 23.4 percent over the last five fiscal years for which data is available.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 66.1 percent at the end of the current year, as compared to 59.8 percent at June 30, 2025.

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.



The District ended fiscal year 2026 with a General Fund cash balance of $78,474,308 (net of borrowing and interfund receivables and payables), an increase of $8,426,749 from the previous year. Unrestricted fund balance (consisting of any committed, assigned, or unassigned fund balances) at year-end totaled $57,725,347, an increase of $5,087,898.

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	$ 195,045	$ 210,060	$ 237,560	$ 16,939	$ 7,843
Restricted fund balances (1)	10,401,177	12,617,454	11,361,825	13,435,079	15,926,918
Unrestricted fund balances					
Assigned	13,668,375	16,250,531	24,377,182	27,967,806	31,936,864
Unassigned	18,832,200	21,652,482	23,793,871	24,669,643	25,788,483
Total fund balance	$ 43,096,797	$ 50,730,527	$ 59,770,438	$ 66,089,467	$ 73,660,108
Unrestricted fund balances as a percentage of expenditures	39.2%	43.1%	50.9%	49.6%	54.2%
Unassigned fund balances as a percentage of expenditures	22.7%	24.6%	25.1%	23.2%	24.2%

(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.

At June 30, 2026, unrestricted fund balances in the General Fund represented 54.2 percent of annual expenditures, or approximately 28 weeks of operations assuming level spending throughout the year.

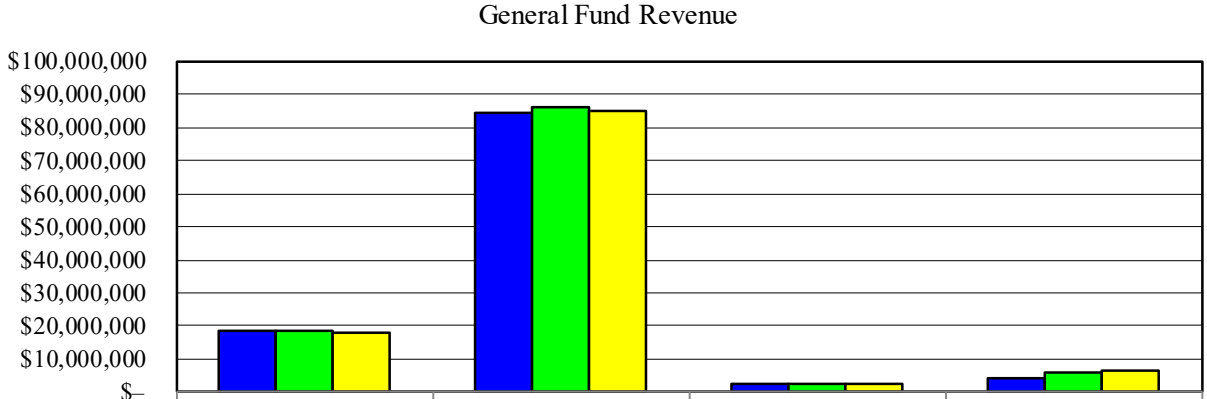
Minimum Fund Balance Policy

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 unassigned fund balance in the General Fund of 8.33 percent of the annual budget.

On June 30, 2026, unassigned fund balance of the General Fund was 24.2 percent of the actual fiscal 2026 General Fund expenditures.

GENERAL FUND REVENUES

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



	Property Taxes	State Sources	Federal Sources	Other
Budget	$18,647,704	$84,622,099	$2,298,358	$4,049,798
Actual	$18,568,056	$86,271,689	$2,562,070	$6,131,820
Prior Year	$18,027,003	$84,926,213	$2,706,977	$6,765,536

Total General Fund revenues were $113,533,635 for the year ended June 30, 2026, which was $3,915,676 (3.6 percent) over the final budget.

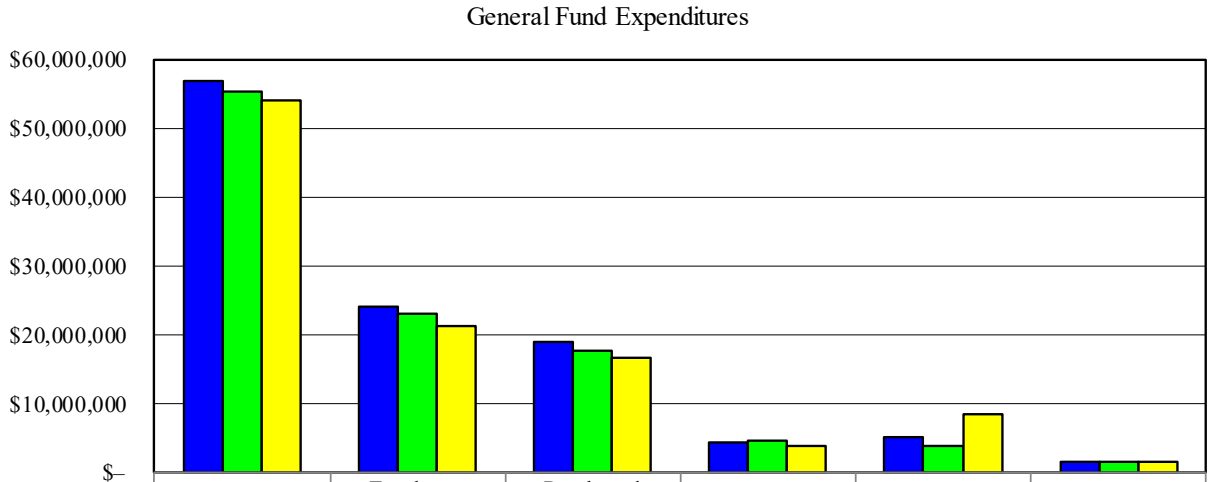
Revenues were better than anticipated in the budget for most major revenue sources as presented in the above graph. Favorable variances were largely due to conservative budgeting. More special education funding and certain categorical grants were reported in state sources than anticipated. Investment earnings, tuition, fees, and admissions, reported in other sources, were significant contributors to the favorable variance in revenues due to conservative budget practices for these less predictable sources.

The District reported revenue increases over the prior year in property taxes and state sources. An increase in the School Board-approved levy contributed to the growth in property taxes to support operations in the current year. State sources were up with funding improvements in general education and special education funding formulas. The District reported less investment earnings and miscellaneous collections compare to the prior year.

The graph above reflects the concentration of state sources (76.0 percent), followed by property taxes (16.4 percent) that provide most of the revenue available to finance General Fund operations.

GENERAL FUND EXPENDITURES

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



	Salaries	Employee Benefits	Purchased Services	Supplies	Capital	Other
Budget	$57,073,265	$24,055,124	$18,970,255	$4,372,972	$5,116,010	$1,533,453
Actual	$55,409,032	$23,205,608	$17,665,685	$4,662,821	$3,899,844	$1,635,157
Prior Year	$54,131,240	$21,435,371	$16,646,924	$3,929,672	$8,437,590	$1,606,831

Total General Fund expenditures were $106,478,147 for the year ended June 30, 2026, which was $4,642,932 (4.2 percent) less than the final budget, but $290,519 (0.3 percent) more than the prior year.

Salary and benefit-related charges, which account for 73.8 percent of General Fund expenditures, increased by $3,048,029 (4.0 percent) and were $2,513,749 (3.1 percent) under amounts planned in the budget. Conservative budgeting, attrition, and open positions and family leave absences contributed to salaries and benefits ending the year less than projected. Spending on personnel services increased with approved contractual increases.

Spending on purchased services was less than anticipated due to the District budgeting to use federal funds to pay special education tuition, which was not advantageous in the current year. Purchased services increased over the prior year with more post-secondary enrollment option tuition agreements. Additional transportation with an increase in special education students requiring transportation services also contributed to the change in purchased services.

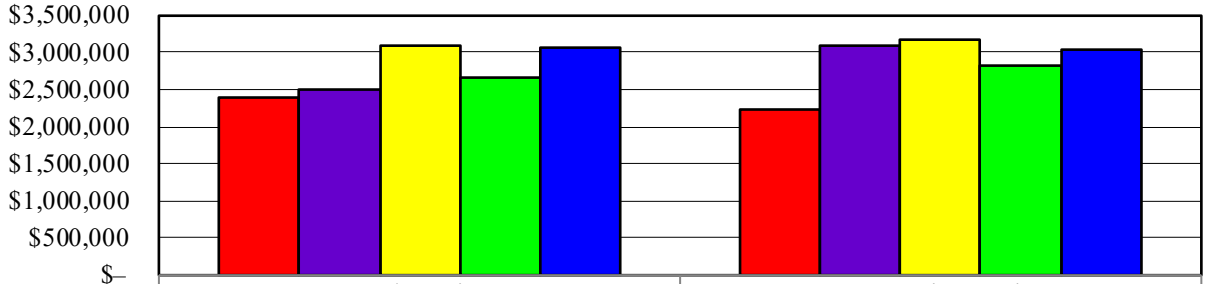
Capital spending was down in accordance with the District's capital projects plan. Savings on projects and conservative budgeting for facilities maintenance spending accounted for the variance compared to the budget.

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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	Community Service
2022	$2,383,004	$2,218,988
2023	$2,501,194	$3,099,613
2024	$3,086,688	$3,177,257
2025	$2,657,552	$2,810,035
2026	$3,059,517	$3,028,834

Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2026 with a fund balance increase of $401,965, compared to a decrease of $295,277 anticipated in the budget. Actual revenues were above projected amounts by $797,556, while actual expenditures were over the budget by $100,314. Revenues were over budget primarily due to conservative budgeting and increased participation with all major revenue sources exceeding amounts anticipated in the budget. Spending exceeded budget by $100,314, largely in supplies and materials with the increase in program participation. The Food Service Special Revenue Fund had a total year-end fund balance of $3,059,517, representing 54.6 percent of annual expenditures totaling $5,606,921.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended fiscal 2026 with a fund balance increase of $218,799, compared to a budgeted reduction of $798,402. Actual revenues were more than projected amounts by $1,051,507, while actual expenditures were more than budget by $34,306. Conservative budgeting for program participation along with additional program offerings contributed to the revenue budget variances. The increase in participation required additional spending for purchased services, which caused expenditures to exceed budget. The Community Service Special Revenue Fund had a total year-end fund balance of $3,028,834, representing 39.7 percent of annual expenditures totaling $7,636,396.

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. The District has been able to maintain healthy, stable fund balances in both funds. The District should continue reviewing upcoming capital needs of these operations and incorporate that information in establishing optimal level of fund balances that are also within state and federal fund balance limits.

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Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. It is important to remember that resources of the Debt Service Fund are dedicated to payment of outstanding debt obligations of the District.

The District has $3,385,128 restricted for general debt service and $471,350 restricted for OPEB debt service. Conservative budgeting for investment earnings contributed to the increase in fund balance over the projected amount.

Proprietary Funds – Internal Service Funds

The District uses internal service funds to account for health and dental insurance offered by the District to its employees as self-insured plans.

The Medical Self-Insurance Fund had a year-end net position of $7,823,540 as of June 30, 2026, representing an increase of $1,320,314 over the prior year.

The Dental Self-Insurance Fund had a year-end net position of $220,196 as of June 30, 2026, representing an increase of $50,678 from the prior year.

Post-Employment Benefits Trust Fund

The District has established a Post-Employment Benefits Trust Fund to account for an irrevocable trust account established to finance the District's liability for post-employment healthcare benefits. At year-end, trust net position of $9,225,424 is available for future OPEB payments

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	$ 83,604,937	$ 74,811,742	$ 8,793,195
Total capital assets, net of depreciation/amortization	128,079,994	130,614,415	(2,534,421)
Pension adjustments	(44,071,838)	(46,475,999)	2,404,161
OPEB adjustments	(669,919)	(1,054,818)	384,899
Other long-term liabilities/obligations	(68,880,724)	(77,079,245)	8,198,521
Other adjustments	6,520,520	5,184,888	1,335,632
Total net position – governmental activities	$ 104,582,970	$ 86,000,983	$ 18,581,987
Net position			
Net investment in capital assets	$ 66,205,460	$ 61,788,541	$ 4,416,919
Restricted	25,284,924	21,575,419	3,709,505
Unrestricted	13,092,586	2,637,023	10,455,563
Total net position	$ 104,582,970	$ 86,000,983	$ 18,581,987

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 net OPEB liabilities.

Total net position increased by $18,581,987 during fiscal 2026. The District's net investment in capital assets increased $4,416,919 this year. The change in this category of net position typically depends on the relationship between the rate at which the District is adding additional capital assets, the rate capital assets are being depreciated and amortized, and how that compares to the rate at which the District is repaying the debt issued to purchase or construct those assets.

Restricted net position increased over the prior year in amounts restricted for capital asset acquisition and facilities maintenance, debt service, food and community services, and other state funding purposes. The change in unrestricted net position includes changes in the District's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association pension plan liabilities and related deferments. The financial operations of the General Fund and Medical Self-Insurance Fund, as previously discussed, also contributed to the change in unrestricted net position.

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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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