



**Independent School District No. 2687  
Howard Lake-Waverly-Winsted, Minnesota**

**Communications Letter**

**June 30, 2025**

**Independent School District No. 2687  
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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. 2687  
Howard Lake-Waverly-Winsted, 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. 2687, Howard Lake-Waverly-Winsted, 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 opinions 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 certain deficiency in internal control that we consider to be a material weakness.

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

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

The material weakness identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 3, 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, 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  
November 3, 2025

**Independent School District No. 2687**  
**Material Weakness**

**Lack of Segregation of Accounting Duties**

The District has a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

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

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Business Manager has the ability to initiate and record manual journal entries without obtaining prior approval.
- The Business Manager can generate purchase orders, approve purchase orders or vouchers, enter invoices into the District's finance system, and has custody of checks before they are mailed.
- The Payroll and Benefits Coordinator is responsible for all aspects of the payroll process. However, each payroll is reviewed by the Business Manager.

We recommend management, along with the School Board, remain aware of this condition, and implement segregation of duties or independent review whenever practical and cost effective.

**Independent School District No. 2687  
Required Communication**

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2025. Professional standards require that we advise you of the following matters related to our audit.

**Our Responsibility in Relation to the Basic Financial Statement Audit**

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

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

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

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

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

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

**Independent School District No. 2687  
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:

- **Management Override of Controls** - Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- **Misappropriation of Assets** - If duties cannot be appropriately segregated, there is a risk of unauthorized transactions being made by the District. In addition, generally this results in less review taking place as transactions are recorded in the financial statements.
- **Improper Revenue Recognition** - Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- **State Aid Valuation** - Revenue and receivable amounts related to General Education Aid and Special Education Aid are generally material to the financial statements and involve significant estimates.
- **Pension Valuation** - Net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions are generally material to the financial statements and involve significant estimates.
- **Other Post Employment Benefits (OPEB) Valuation** - Total OPEB liability, deferred outflows of resources related to OPEB, and deferred inflows of resources related to OPEB are generally material to the financial statements and involve significant estimates.

## Independent School District No. 2687 Required Communication

### Significant Risks (Continued)

- Compensated Absences Valuation - Compensated absence balances are generally 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 have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2025. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Significant Accounting Estimates and Related Disclosures*

Accounting estimates and related disclosures are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements relate to:

General Education and Special Education Aid - General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is also dependent upon ADM value; however, in addition to those, this Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

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

Net Pension Liability, Deferred Outflows of Resources 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.

Compensated Absences Payable - This balance is based on an actuarial study using the estimates of future obligations of the District for compensated absences.

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

**Independent School District No. 2687  
Required Communication**

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

*Financial Statement Disclosures*

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

**Significant Difficulties Encountered during the Audit**

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

**Uncorrected and Corrected Misstatements**

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

Management did not identify, and we did not notify them of any uncorrected financial statement 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 the basic financial statements taken as a whole.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

**Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter.

**Management's Consultations with Other Accountants**

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

**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.

**Independent School District No. 2687  
Required Communication**

**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 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. 2687  
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 and Pupil Units**

The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to ADM. Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

Year	General Education Aid Formula Allowance	
	Amount	Percent Increase
2016	\$ 5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%
2022	6,728	2.5%
2023	6,863	2.0%
2024	7,138	4.0%
2025	7,281	2.0%
2026	7,481	2.7%

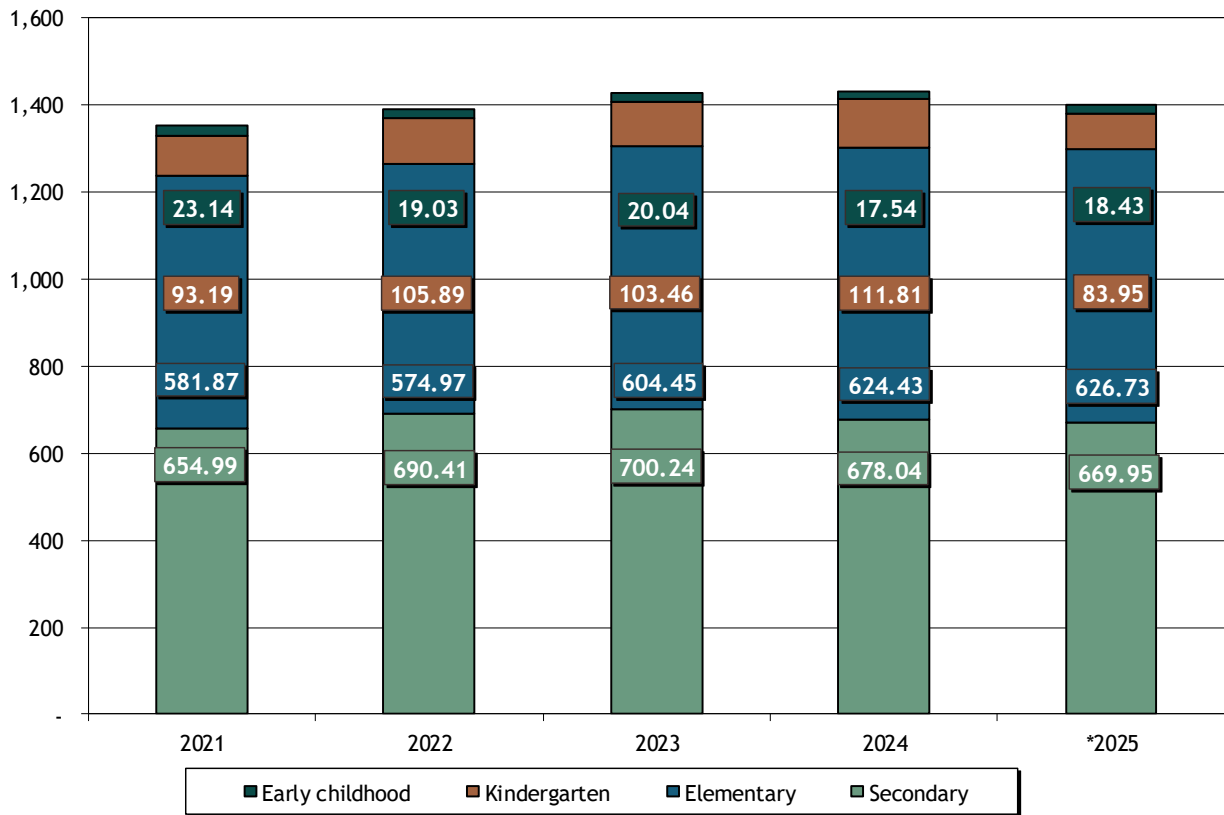
## Independent School District No. 2687 Financial Analysis

### Resident Average Daily Membership and Pupil Units

Approximately 76.9% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans. The following table and graph summarizes resident ADM of the District for the past five years ended June 30.

ADM	2021	2022	2023	2024	*2025
Early childhood	23.14	19.03	20.04	17.54	18.43
Kindergarten	93.19	105.89	103.46	111.81	83.95
Elementary	581.87	574.97	604.45	624.43	626.73
Secondary	654.99	690.41	700.24	678.04	669.95
<b>Total Resident ADM</b>	<b>1,353.19</b>	<b>1,390.30</b>	<b>1,428.19</b>	<b>1,431.82</b>	<b>1,399.06</b>

**Resident ADM**



\* Estimate

**Independent School District No. 2687  
Financial Analysis**

**Resident Average Daily Membership and Pupil Units (Continued)**

The chart and graph on the previous page illustrate the increase in resident ADM encountered by the District when comparing 2021 through 2025. Resident ADM decreased in 2025 by 32.76 ADM or 2.3%. Resident ADM increased by 45.87, or 3.4%, since 2021.

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table below.

<b>Pupil Units Weighting</b>						
	Pre-Kindergarten	Kindergarten Disabled	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
2021 through 2025	1.00	1.00	1.00	1.00	1.00	1.20

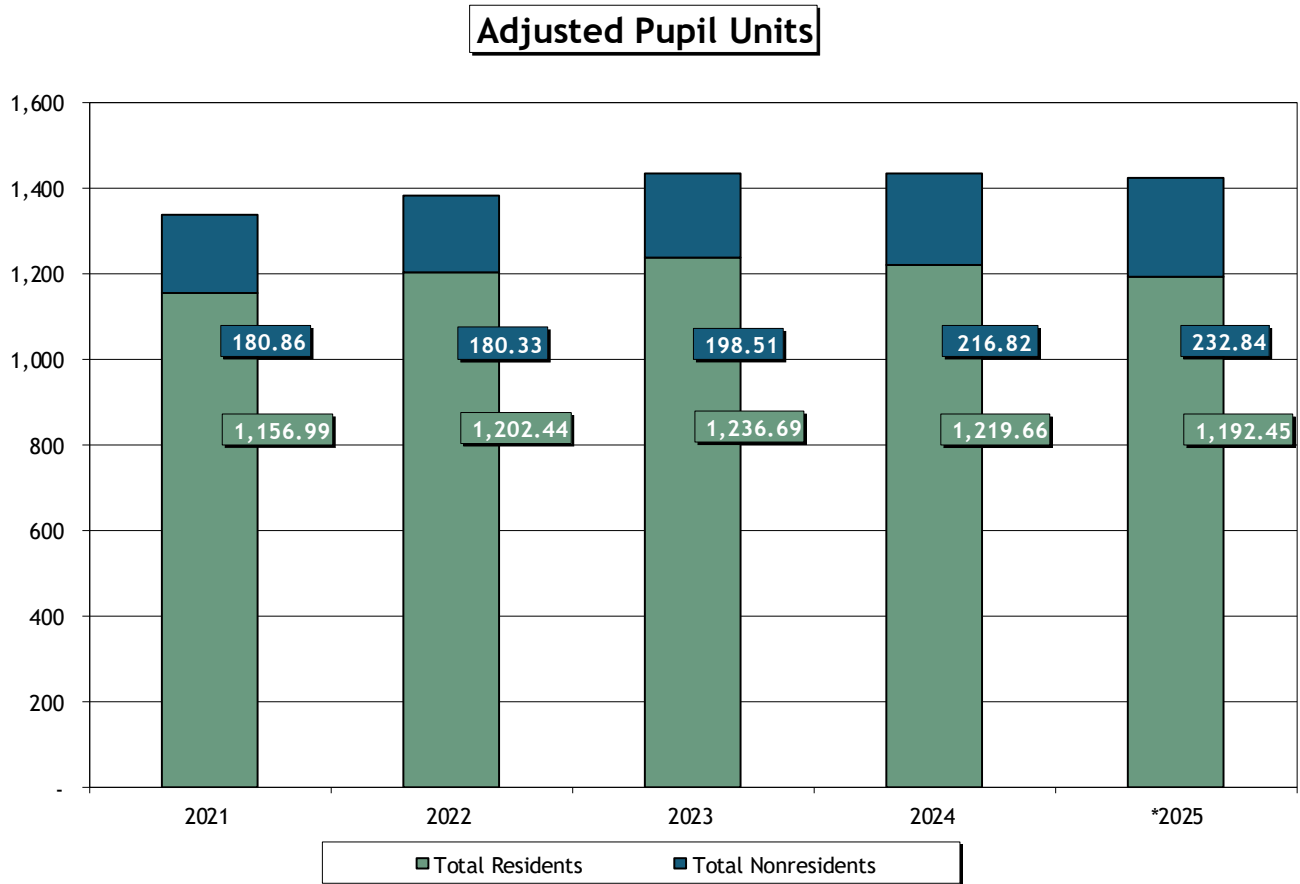
The Pupil Unit Number (PUN) served or adjusted pupil units table below and graph on the following page convert the resident ADM into adjusted pupil unit number data for the past five years taking into consideration the above weighting factors and open enrollment.

<b>PUN</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>*2025</b>
Residents	1,484.18	1,528.39	1,568.24	1,566.97	1,533.05
Resident PUN loss	(327.19)	(325.95)	(331.55)	(347.31)	(340.60)
Nonresident PUN gain	180.86	180.33	198.51	216.82	232.84
<b>Total Adjusted PUN</b>	<b>1,337.85</b>	<b>1,382.77</b>	<b>1,435.20</b>	<b>1,436.48</b>	<b>1,425.29</b>

\* Estimate

**Independent School District No. 2687  
Financial Analysis**

**Pupil Units Served**



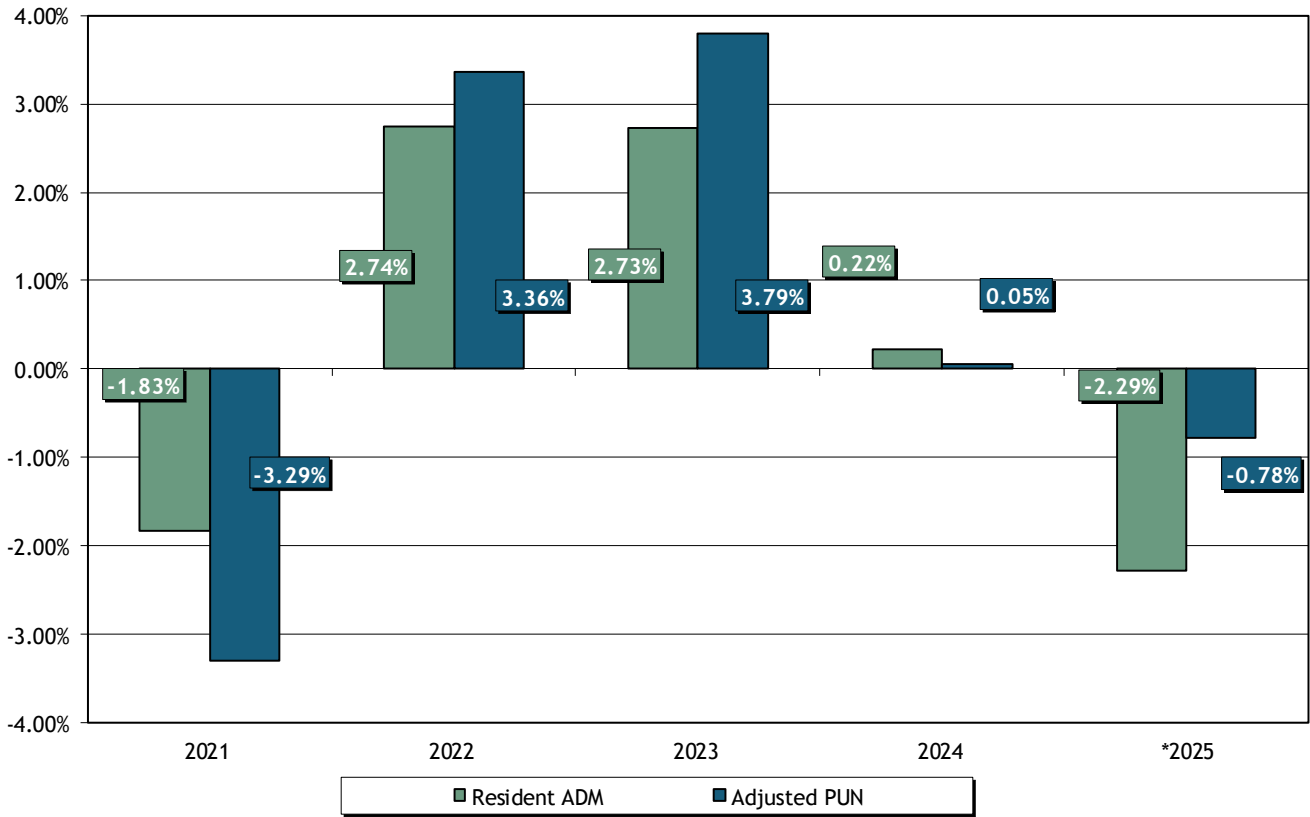
\* Estimate

Since 2021, pupil units have increased 87.44 units. Approximately 22.2% of the District's resident pupil units are leaving the District through open enrollment. This is partially offset by the 232.84 nonresident pupil units coming into the District. The District experienced a net loss on open enrollment of 107.06 pupil units in 2025, compared to 130.49 pupil units in 2024. Overall, PUN decreased 11.19 from 2024 to 2025 as a result of the decrease in resident ADM.

Independent School District No. 2687  
Financial Analysis

Resident Average Daily Membership and Adjusted Pupil Units

Change in Resident ADM and Adjusted PUN



\* Estimate

## Independent School District No. 2687 Financial Analysis

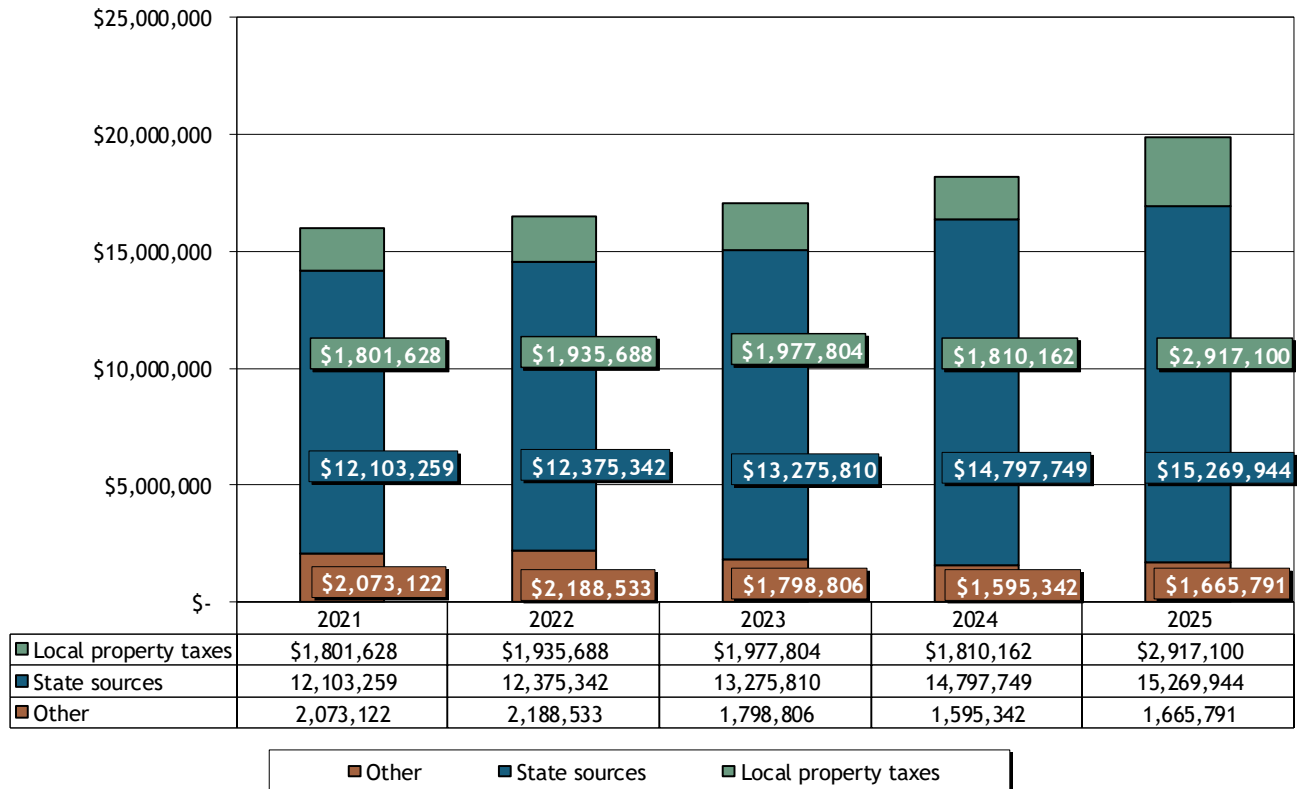
### General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows for the last five years:

	2021	2022	2023	2024	2025
Local property taxes	\$ 1,801,628	\$ 1,935,688	\$ 1,977,804	\$ 1,810,162	\$ 2,917,100
State sources	12,103,259	12,375,342	13,275,810	14,797,749	15,269,944
Other	2,073,122	2,188,533	1,798,806	1,595,342	1,665,791
<b>Total</b>	<b>\$ 15,978,009</b>	<b>\$ 16,499,563</b>	<b>\$ 17,052,420</b>	<b>\$ 18,203,253</b>	<b>\$ 19,852,835</b>

In total, General Fund revenues increased \$1,649,582, or 9.1%, from 2024 to 2025. State sources comprise 76.9% of General Fund total revenue, local taxpayers contributed 14.7% of the funding, and federal and other sources make up the remaining 8.4%. Local property taxes increased \$1,106,938 based on the higher tax levy for the General Fund. Revenues from state sources increased \$472,195, or 3.2%, due in part to greater General Education Aid with the increased formula allowance along with higher special education aid. Other local revenues, revenues from federal sources, and sales and other conversion of assets combine to make up other sources of revenues. These revenues increased \$70,449, or 4.4%.

### General Fund Sources of Revenue

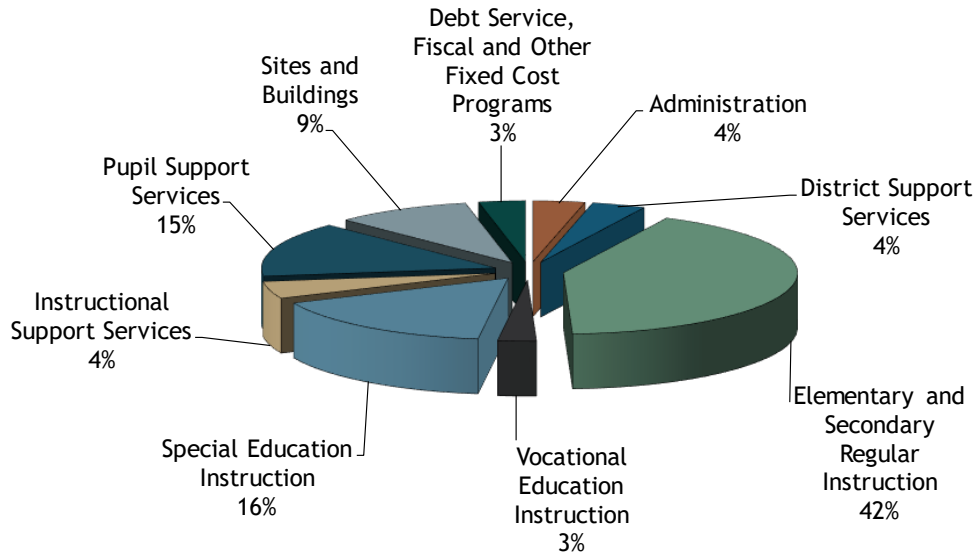


## Independent School District No. 2687 Financial Analysis

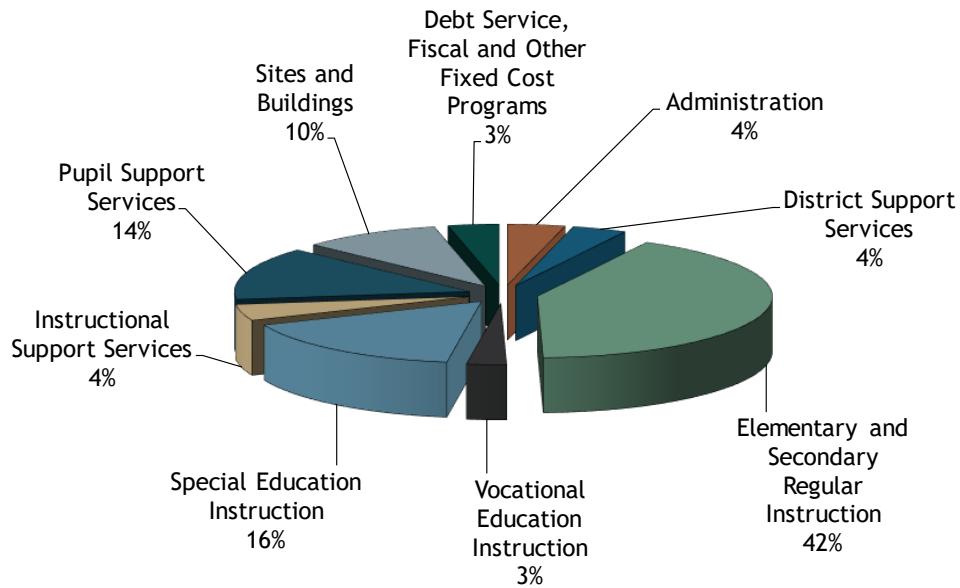
### General Fund Expenditures

The graphs below depict the percentage of expenditures by function in the General Fund for years 2024 and 2025. Expenditures increased by \$933,292, or 5.2%, from 2024 to 2025. The allocation of expenditures remained nearly identical to the previous year.

**2025 General Fund Expenditures  
\$18,744,897**



**2024 General Fund Expenditures  
\$17,811,605**



**Independent School District No. 2687  
Financial Analysis**

**General Fund Budget and Actual**

The graph below shows the District's General Fund budget in comparison to the actual revenue and expenditures. In the final budget, the District anticipated an increase in fund balance of \$195,802. At year-end, fund balance increased by \$1,108,508.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 2,848,514	\$ 2,848,514	\$ 2,917,100	\$ 68,586
State sources	14,927,767	15,292,440	15,269,944	(22,496)
Other sources	1,437,695	1,502,025	1,665,791	163,766
Total revenues	<u>19,213,976</u>	<u>19,642,979</u>	<u>19,852,835</u>	<u>209,856</u>
<b>Expenditures</b>				
Administration	698,140	686,563	670,237	(16,326)
District Support Services	650,738	681,745	695,065	13,320
Elementary and Secondary Regular Instruction	8,119,127	8,386,554	7,888,063	(498,491)
Vocational Education Instruction	523,492	512,873	498,270	(14,603)
Special Education Instruction	3,166,682	3,164,408	3,051,567	(112,841)
Instructional Support Services	669,925	710,991	846,461	135,470
Pupil Support Services	2,418,278	2,681,499	2,727,956	46,457
Sites and Buildings	1,818,177	2,008,155	1,758,896	(249,259)
Debt Service and Fiscal	614,739	610,239	603,027	(7,212)
Community Service	797	4,700	5,355	655
Total expenditures	<u>18,680,095</u>	<u>19,447,727</u>	<u>18,744,897</u>	<u>(702,830)</u>
<b>Other Financing Sources</b>	-	550	570	20
<b>Net change in fund balances</b>	<b>\$ 533,881</b>	<b>\$ 195,802</b>	<b>\$ 1,108,508</b>	<b>\$ 912,706</b>

In total, actual revenues were \$209,856, or 1.1%, over final budgeted revenues. Revenue from other sources produced the majority of that variance and ended \$163,766 over budget with better investment earnings in 2025 than budgeted along with greater miscellaneous revenue than anticipated.

Actual expenditures were approximately 3.6% under the final budgeted expenditures. Elementary and secondary education expenditures were \$498,491 less than the budget based on conservative budgeting for salaries and benefits along with less than budgeted supply and material costs. Sites and Buildings had expenditures \$249,259 under budget based on utility costs coming in less than anticipated. Expenditures for special education came in \$112,841 under budget due to conservative budgeting for potential special education costs, particularly purchased services. Instructional support services was \$135,470 over budget due in large part to staff development expenditures.

**Independent School District No. 2687  
Financial Analysis**

**Revenues and Expenditures Per ADM Served for the General Fund**

The tables below and the graphs on the following page show a comparison of revenues and expenditures per students (ADM served) by the District, similarly-sized districts, and all Minnesota school districts. ADM served includes students enrolled outside the District through tuition agreements as the tuition cost remains with the District.

	2021	2022	2023	2024	2025
Total revenues per student*	\$ 12,884	\$ 12,941	\$ 12,864	\$ 13,763	\$ 15,192
Districts with 1,000-1,999 ADM**	13,382	13,629	14,266	15,558	N/A
State average**	14,612	15,166	15,727	17,187	N/A

	2021	2022	2023	2024	2025
Total expenditures per student*	\$ 12,852	\$ 12,903	\$ 13,421	\$ 13,458	\$ 14,344
Districts with 1,000-1,999 ADM**	12,838	13,610	14,414	15,038	N/A
State average**	14,167	15,010	15,730	16,649	N/A

\* Source: *School District Profiles* for 2024-2025; fiscal year 2025 is an estimate.

\*\* State average expenditures per ADM served for 1,000-1,300 ADM group for 2021-2022, 1,000-1,999 ADM group for 2023-2024, and state averages for all years obtained from *School District Profiles*; fiscal year ending 2025 not yet available.

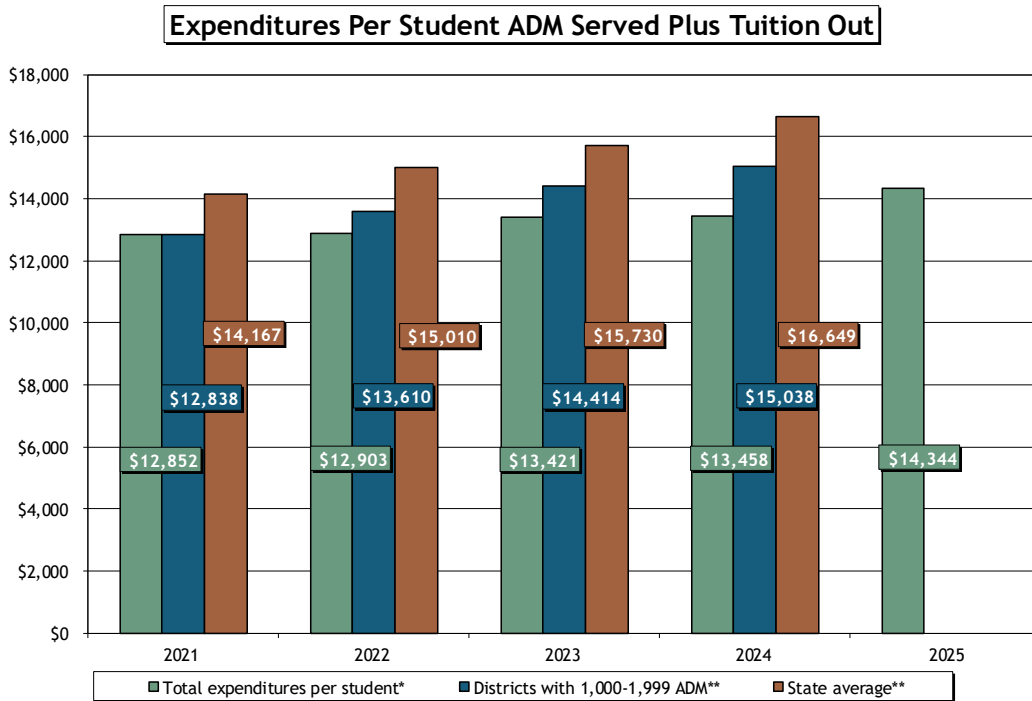
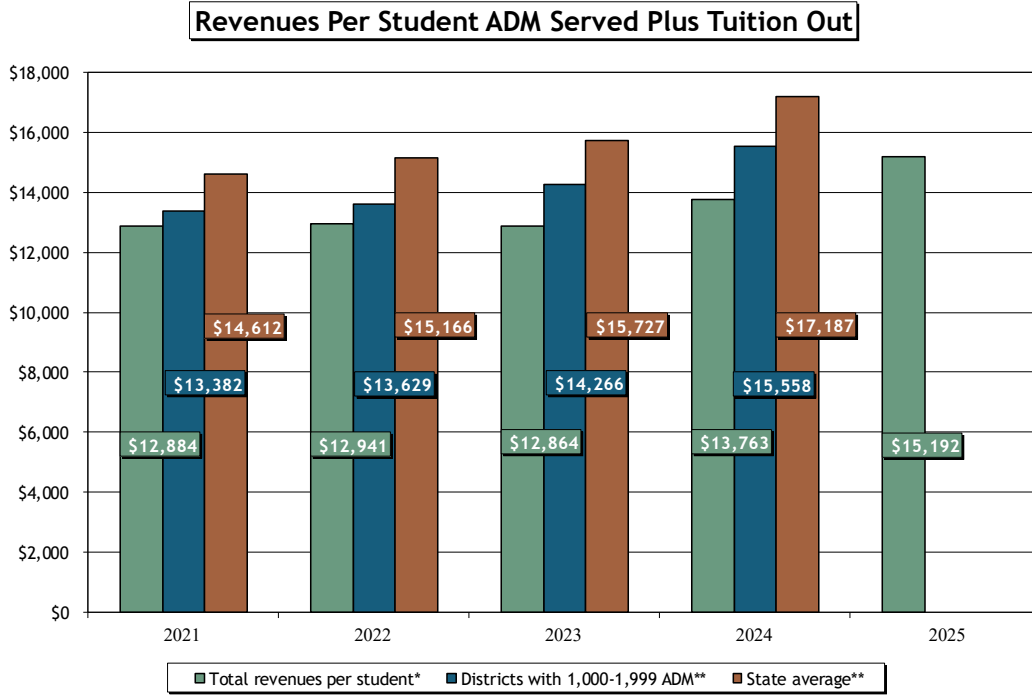
The District's revenues per ADM served have consistently remained below the average for districts of similar size and the overall state average. Revenues per ADM served increased \$1,429, or 10.4%, from 2024 to 2025. The District's revenues per ADM served have increased \$2,308 from 2021 to 2025.

The District has seen an increase of \$886 or 6.6% in expenditures per ADM served from 2024 to 2025 primarily due to expenditures increasing and a decrease in the number of students. The District has been below the average for districts of similar size for three of the four years presented and remained below the overall state average for 2021 through 2024.

The District's expenditures per ADM served increased 11.6% over the past five years while revenues per ADM served increased 17.9% over the same period.

## Independent School District No. 2687 Financial Analysis

### Revenues and Expenditures Per ADM Served



\* Source: *School District Profiles* for 2021-2024; fiscal year 2025 is an estimate.

\*\* State average expenditures per ADM served for 1,000-1,300 ADM group for 2021-2022, 1,000-1,999 ADM group for 2023-2024, and state averages for all years obtained from *School District Profiles*; fiscal year ending 2025 not yet available.

**Independent School District No. 2687  
Financial Analysis**

**General Fund Operations**

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

	2021	2022	2023	2024	2025
Revenues	\$ 15,978,009	\$ 16,499,563	\$ 17,052,420	\$ 18,203,253	\$ 19,852,835
Expenditures	15,938,369	16,450,701	17,785,896	17,811,605	18,744,897
Excess of revenues over (under) expenditures	39,640	48,862	(733,476)	391,648	1,107,938
Other financing sources	-	2,500	-	38,270	570
Fund balance, July 1	1,203,115	1,242,755	1,294,117	560,641	990,559
<b>Fund Balance, June 30</b>	<b>\$ 1,242,755</b>	<b>\$ 1,294,117</b>	<b>\$ 560,641</b>	<b>\$ 990,559</b>	<b>\$ 2,099,067</b>

<b>Components</b>					
Nonspendable	\$ 37,088	\$ 14,518	\$ 8,145	\$ 3,725	\$ 162,123
Restricted/Reserved for					
Student Activities	86,354	107,294	121,167	118,259	115,047
Q Comp	-	-	-	-	(3,898)
Literacy Aid	-	-	-	-	50,707
Teacher Comp READ Act	-	-	-	-	16,975
Literacy Incentive Aid	-	-	-	35,103	-
Operating Capital	105,850	246	-	-	-
Student Support Personnel	-	-	-	1,695	-
Long-Term Facilities Maintenance	(471)	28,685	47,631	4,291	68,027
Assigned for					
Elementary R.A.K.	3,271	3,271	3,271	3,271	3,271
Letter Club	-	2,479	2,479	2,479	-
Unassigned	1,010,663	1,137,624	377,948	821,736	1,686,815
<b>Total</b>	<b>\$ 1,242,755</b>	<b>\$ 1,294,117</b>	<b>\$ 560,641</b>	<b>\$ 990,559</b>	<b>\$ 2,099,067</b>

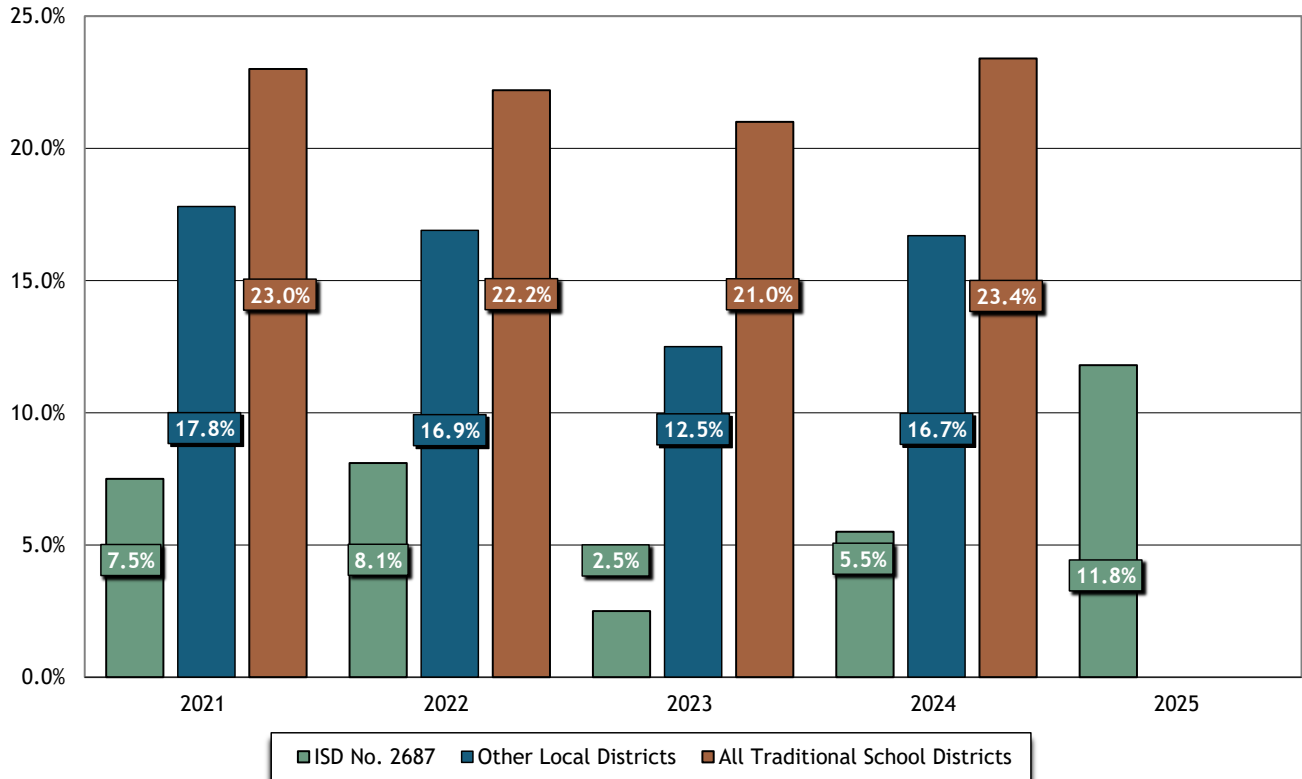
As previously stated, total General Fund revenue increased 9.1% from 2024 to 2025, while total General Fund expenditures increased 5.2% over the same period.

The unassigned portion of the General Fund balance, which is the amount available for future spending, increased \$865,079 to \$1,686,815. Revenues have exceeded expenditures in four of the five years shown above. The unassigned balance at June 30, 2025, represents a little more than one month, or 9.0%, of 2025 expenditures. The District fund balance policy outlines a minimum of 8% and a maximum of 20% of the prior year's expenditures. At June 30, 2025, the District resides above the minimum of that policy.

Independent School District No. 2687  
Financial Analysis

General Fund Balance

Unrestricted Fund Balance as a Percent of Unrestricted Expenditures



The above graph shows the total fund balance as a percentage of expenditures. The District has remained consistently below state averages. The percentage increased from 5.5% in 2024 to 11.8% in 2025.

**Independent School District No. 2687  
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	\$ 901,293	\$ 1,220,477	\$ 1,031,878	\$ 1,408,261	\$ 1,403,879
Expenditures	746,052	920,462	1,149,793	1,327,195	1,335,459
Excess of revenues over (under) expenditures	155,241	300,015	(117,915)	81,066	68,420
Fund balance, July 1	57,791	213,032	513,047	395,132	476,198
<b>Fund Balance, June 30</b>	<b>\$ 213,032</b>	<b>\$ 513,047</b>	<b>\$ 395,132</b>	<b>\$ 476,198</b>	<b>\$ 544,618</b>

Revenues in the Food Service Fund exceeded expenditures for the fourth time in the five years presented as revenues were \$68,420 higher than expenditures in 2025. From 2024 to 2025, food service revenues decreased by 0.3% while expenditures increased by 0.6%. The end result was an increase in fund balance to an amount of \$544,618 at the end of the year.

**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	\$ 569,547	\$ 601,943	\$ 775,793	\$ 1,028,671	\$ 1,123,651
Expenditures	593,261	686,132	823,801	973,406	1,022,731
Excess of revenues over (under) expenditures	(23,714)	(84,189)	(48,008)	55,265	100,920
Fund balance, July 1	75,810	52,096	(32,093)	(80,101)	(24,836)
<b>Fund Balance, June 30</b>	<b>\$ 52,096</b>	<b>\$ (32,093)</b>	<b>\$ (80,101)</b>	<b>\$ (24,836)</b>	<b>\$ 76,084</b>

**Components**

Nonspendable	\$ -	\$ -	\$ 1,357	\$ -	\$ -
Restricted for					
ECFE	32,535	59,385	28,142	10,796	-
Community Education	3,099	(82,230)	(98,378)	(24,507)	52,616
School Readiness	4,563	(19,554)	(19,062)	(18,807)	-
Community Service	11,899	10,306	7,840	7,682	23,468
<b>Total</b>	<b>\$ 52,096</b>	<b>\$ (32,093)</b>	<b>\$ (80,101)</b>	<b>\$ (24,836)</b>	<b>\$ 76,084</b>

Revenues exceeded expenditures for the second consecutive year with an excess of \$100,920 in the Community Service Fund for 2025. During the year, revenue increased 9.2% while expenditures increased 5.1%. Revenues increased with increased tuition and programming revenue, particularly the Laker Care, preschool, and youth programs. Expenditures for salaries, benefits, and purchased services increased due to increased programming as well. Fund balance ended the year at \$76,084 after being negative for the previous three years.

## **Independent School District No. 2687 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. 2687**  
**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. 2687 Emerging Issues

### Executive Summary

The following is an executive summary of financial and business 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. 2687 Emerging Issues

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

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

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

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

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

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

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

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

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

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).

**Independent School District No. 2687**  
**Emerging Issues**

**Accounting Standard Update - GASB Statement No. 104 - Disclosure of Certain Capital Assets**

The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets continue to be disclosed separately in the capital assets note disclosures including presentation of capital assets by major class and separate disclosure of lease assets, subscription assets, and intangible right-to-use assets.

This Statement requires additional disclosures for capital assets held for sale. A capital asset is held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date.

Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

GASB Statement No. 104 is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).