

**DELETE PAGE BEFORE PRINTING**

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

**Basic Financial Statements**

**June 30, 2025**



**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
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**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Board of Education and Administration**  
June 30, 2025

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Ben Borrell	Chairperson	December 31, 2026
Shannah Mulvihill	Vice Chairperson	December 31, 2026
Katie Koch	Clerk	December 31, 2026
Kelsey Puncochar	Treasurer	December 31, 2028
Brian Marketon	Director	December 31, 2028
Allie Bauman	Director	December 31, 2028
Josh Borrell	Director	December 31, 2028
<u>Administration</u>		
Dan Edwards	Superintendent	

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## Independent Auditor's Report

To the School Board  
ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Howard Lake-Waverly-Winsted, Minnesota

### **Report on the Audit of the Financial Statements**

We have audited 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, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2687, as of June 30, 2025, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 2687 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Emphasis of Matter**

The City has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

The management of Independent School District No. 2687 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV, Ltd.

St. Cloud, Minnesota  
November 3, 2025

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## Independent School District No. 2687 Management's Discussion and Analysis

This section of Independent School District No. 2687's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2025. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued in June, 1999. GASB Statement No. 34 established reporting requirements that include additional financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

### FINANCIAL HIGHLIGHTS - 2024-25

- Governmental operating fund revenues and other financing sources were \$22,380,935, while governmental operating fund expenditures totaled \$21,103,087, resulting in a net change in fund balances of \$1,287,093. These amounts do not include the Building Construction Fund or the Debt Service Fund.
- The Unassigned Fund Balance increased \$865,079 in the General Fund and ended the year with a balance of \$1,686,815. The 2024-2025 school year enrollment was stronger than had been anticipated prior to the year starting.
- The General Fund has other fund balance components besides the unassigned, and these include *restricted* and *assigned* fund balances. Compared to June 30, 2024, the *total* fund balance in the General Fund is higher by \$1,108,508. The nonspendable fund balance increased by \$158,398. The restricted amount includes a decrease in student activity funds of \$3,212, LTFM increase of \$63,736, Literacy Aids increase of \$15,604 and Student Support Personnel Aid decrease of \$1,695.
- Two new fund balances were established this year in response to legislation passed by the state: Quality Compensation Alternative Teacher Professional Pay System of (\$3,898) and Teacher Compensation for Read Act Training of \$16,975.
- The Food Service Fund balance increased \$68,420 and has a fund balance of \$544,618. The statewide implementation of free meals for all Minnesota students continues to contribute to the growth in meal participation. Additional funds were used to help repair and replace equipment at each building, as needed.
- The Community Service Fund balance increased by \$100,920 and has a total fund balance of \$76,084. Expanded programming and the introduction of all-day childcare have supported the fund's recovery from a deficit following the pandemic's impact.
- Bonded indebtedness principal was paid in the amount of \$1,935,000.

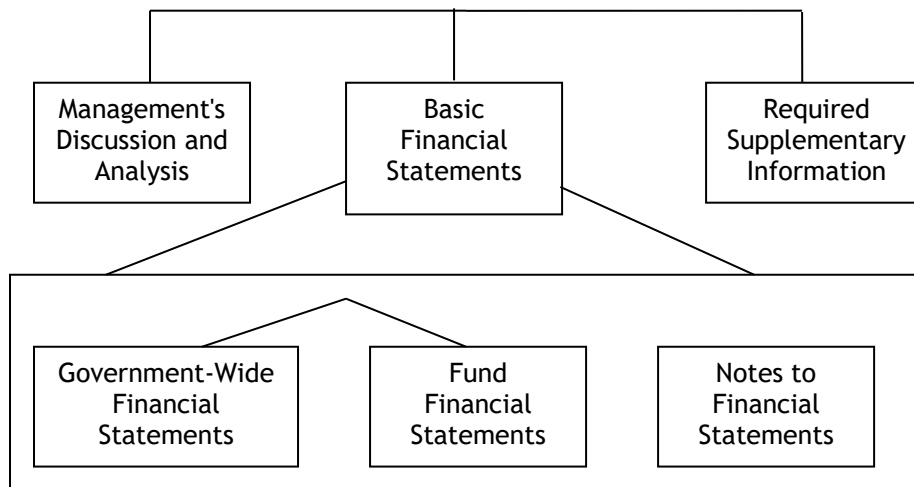
# Independent School District No. 2687 Management's Discussion and Analysis

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts: Independent Auditor's Report, required supplementary information, which includes the MD&A, the basic financial statements, and the supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. The diagram below shows how the various parts of this annual report are arranged and related to one another:



Summary < ----- > Detail

**Independent School District No. 2687  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The major features of the District's financial statements, including the portion of the District's activities they cover, and the types of information they contain, are summarized on the following page. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

**Government-Wide Statements**

<b>Fund Financial Statements</b>		
	<b>Government-Wide Statements</b>	<b>Governmental Funds</b>
Scope	Entire District	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance.
Required Financial Statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.
Type of Assets/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

**Independent School District No. 2687  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-Wide Statements (Continued)**

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, is one way to measure the District's financial health or position.

- Over time, increases, or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are shown in one category:

- **Governmental Activities** - Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show it is properly using certain revenues (e.g., federal grants).

The District has one kind of fund:

- **Governmental Funds** - All of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information following the governmental funds statements that explain the relationship (or differences) between them.

**Independent School District No. 2687  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (GOVERNMENT-WIDE FINANCIAL STATEMENTS)**

**Net Position**

The District's combined net position was \$2,418,750 on June 30, 2025 (see details in Table A-1). This is an increase from (\$75,223) on June 30, 2024.

**Table A-1**

	June 30,	
	2025	2024
<b>Assets and Deferred Outflows of Resources</b>		
Current and other assets	\$ 11,301,189	\$ 9,798,263
Capital assets	43,105,269	44,119,542
Deferred outflows of resources	2,463,790	2,890,303
Total assets and deferred outflows of resources	\$ 56,870,248	\$ 56,808,108
 <b>Liabilities and Deferred Inflows of Resources</b>		
Current liabilities	\$ 5,078,637	\$ 4,754,848
Long-term liabilities	40,206,595	44,904,902
Deferred inflows of resources	9,166,266	6,850,108
Total liabilities and deferred inflows of resources	\$ 54,451,498	\$ 56,509,858
 <b>Net Position</b>		
Net investment in capital assets	\$ 9,897,778	\$ 8,329,476
Restricted	1,066,673	834,265
Unrestricted	(8,545,701)	(9,238,964)
Total net position	\$ 2,418,750	\$ (75,223)

**Change in Net Position**

The increase in net position occurred as a result of the District's expenses being less than its revenues for the fiscal year ended June 30, 2025. A summary of the revenue and expenses is presented in Table A-2 on the following page.

**Independent School District No. 2687  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (GOVERNMENT-WIDE FINANCIAL STATEMENTS)  
(CONTINUED)**

**Change in Net Position (Continued)**

**Table A-2**

	June 30,	
	2025	2024
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 1,538,994	\$ 1,451,372
Operating grants and contributions	6,359,785	6,115,284
Capital grants and contributions	506,744	523,260
General revenues		
Property taxes	5,738,699	4,734,326
Aids and payments from state and other	11,291,948	10,821,989
Other sources	341,217	357,959
Total revenues	<u>25,777,387</u>	<u>24,004,190</u>
<b>Expenses</b>		
Administration	668,308	614,578
District support services	696,108	683,974
Regular instruction	7,741,473	7,232,444
Vocational education instruction	498,969	469,162
Special education instruction	3,012,837	2,870,018
Instructional support services	778,909	349,501
Pupil support services	2,660,281	2,390,087
Sites and buildings	2,970,129	2,895,670
Fiscal and other fixed costs	119,440	120,909
Food service	1,345,227	1,363,016
Community service	1,018,202	996,820
Interest and fiscal charges on long-term liabilities	1,056,175	1,143,272
Total expenses	<u>22,566,058</u>	<u>21,129,451</u>
Change in net position	3,211,329	2,874,739
<b>Net Position</b>		
Beginning	(75,223)	(2,949,962)
Change in accounting principle	(717,356)	-
Beginning, as restated	<u>(792,579)</u>	<u>(2,949,962)</u>
Ending	<u>\$ 2,418,750</u>	<u>\$ (75,223)</u>

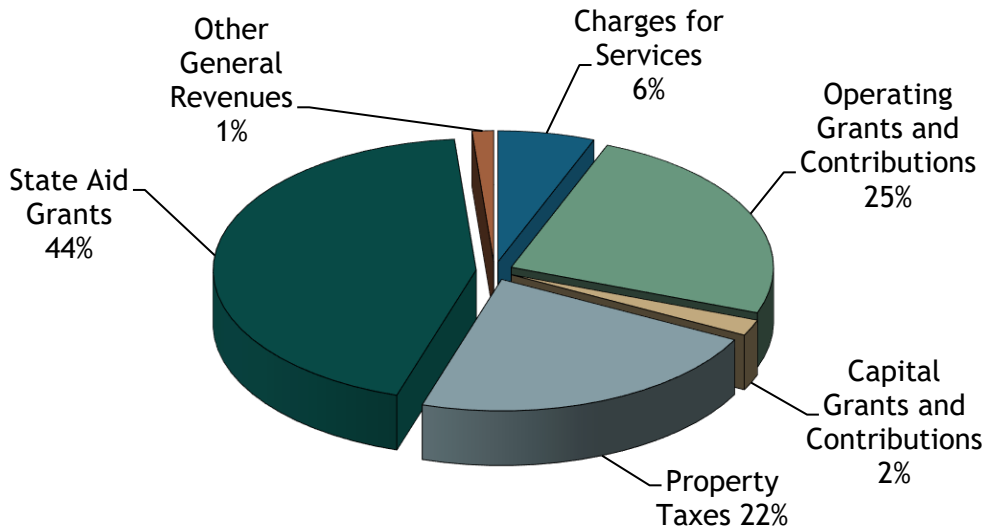
**Independent School District No. 2687  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (GOVERNMENT-WIDE FINANCIAL STATEMENTS)  
(CONTINUED)**

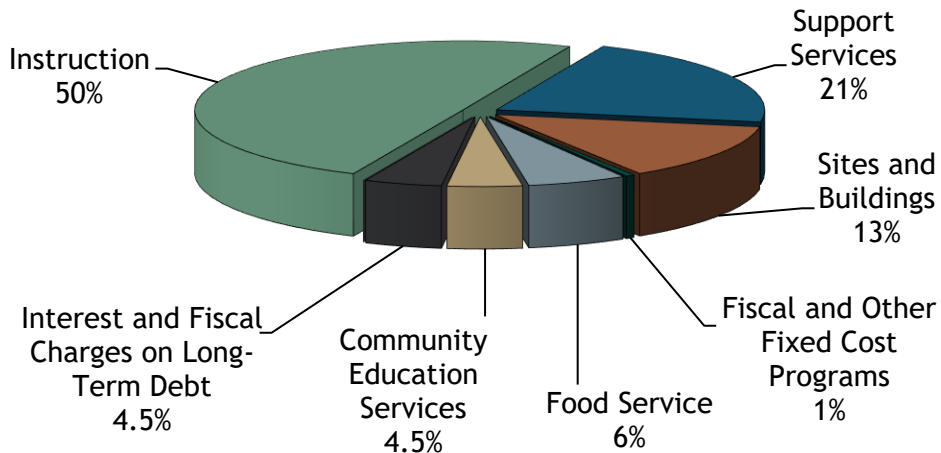
**Change in Net Position (Continued)**

The District's total revenue consisted of program revenues of \$8,405,523; property taxes of \$5,738,699; payments from the state aids of \$11,291,948; and \$341,217 from miscellaneous other sources. Expenses totaling \$22,566,058 consisted mainly of regular, vocational, and special instruction costs of \$12,253,279. Other areas of cost included: support services (District, administrative, instructional, and pupil) of \$4,803,606; sites, buildings, and equipment of \$2,970,129; fiscal and other fixed cost programs of \$119,440; food service of \$1,345,227; community education services of \$1,018,202; and interest and fiscal charges on long-term debt of \$1,056,175.

**Table A-3  
Sources of Revenues for 2024-2025**



**Table A-4  
Expenses for Fiscal Year  
2024-2025**



**Independent School District No. 2687  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (GOVERNMENT-WIDE FINANCIAL STATEMENTS)  
(CONTINUED)**

**Change in Net Position (Continued)**

The net cost of governmental activities is their total cost less program revenues applicable to each category. Table A-5 presents these costs.

**Table A-5**

	June 30, 2025		June 30, 2024	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Administration	\$ 668,308	\$ (668,308)	\$ 614,578	\$ (614,578)
District support services	696,108	(616,087)	683,974	(632,502)
Regular instruction	7,741,473	(5,738,204)	7,232,444	(5,222,003)
Vocational education instruction	498,969	(477,016)	469,162	(443,858)
Special education instruction	3,012,837	(213,544)	5,870,018	(107,519)
Instructional support services	778,909	(339,943)	349,501	8,910
Pupil support services	2,660,281	(2,518,664)	2,390,087	(2,242,209)
Sites and buildings	2,970,129	(2,436,113)	2,895,670	(2,400,487)
Fiscal and other fixed costs	119,440	(119,440)	120,909	(120,909)
Food service	1,345,227	49,666	1,363,016	37,822
Community service	1,018,202	(26,707)	996,820	(158,930)
Interest and fiscal charges on long-term liabilities	1,056,175	(1,056,175)	1,143,272	(1,143,272)
Total	<u>\$ 22,566,058</u>	<u>\$ (14,160,535)</u>	<u>\$ 24,129,451</u>	<u>\$ (13,039,535)</u>

**Fund Balance**

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$3,372,831. This is an increase of \$1,287,093 from the June 30, 2024, combined fund balance total, which was \$2,085,738. The increase is due to various favorable factors. Here is a summary of the key drivers behind the increase in the fund balance.

1. **Community Education Success:** Increased participation and a profitable year in Community Education, especially from the Laker Care program, helped strengthen the overall fund balance.
2. **Food Service Growth:** Increased sales and revenue in Food Services, driven by the statewide free meals for all students legislation passed in spring 2023, continue to contribute to higher meal participation.
3. **Higher Enrollment:** Enrollment surpassed projections, leading to increased revenue from both full-time and shared-time students.
4. **Reduced Operational Costs:** An LED lighting project across the district, paired with a mild winter, helped lowered utilities and snow removal expenses.
5. **Staffing Changes:** Savings resulted from unfilled positions, lower-cost hires, and the use of substitute staff, who have lower wage and benefit costs.

**Independent School District No. 2687  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

**Revenue and Expenditures**

Revenues of the District's governmental funds totaled \$25,530,857, while total expenditures were \$24,244,334. The expenditures included \$3,141,247 in debt service bond and interest payments.

**Table A-6**

**Revenues and Expenditures - Governmental Funds**

	Revenue	Expenditures	Excess of Revenues Over (Under) Expenditures
General	\$ 19,852,835	\$ 18,744,897	\$ 1,107,938
Food service	1,403,879	1,335,459	68,420
Community service	1,123,651	1,022,731	100,920
Building construction	-	-	-
Debt service	3,150,492	3,141,247	9,245
Total	\$ 25,530,857	\$ 24,244,334	\$ 1,286,523

**Fund Budgetary Highlights**

During the fiscal year ended June 30, 2025, the District revised its operating budget once. This annual revision is necessary because the initial budget, adopted before the fiscal year begins on July 1, is based on estimated data such as student enrollments, staffing levels, and other critical factors. Once these details are finalized, the budget is updated accordingly. This process is consistent with past years.

**General Fund** - The District's final General Fund budget anticipated a modest increase of \$195,802. Actual results, however, were much stronger, with an increase of \$1,108,508. Increased average daily membership (ADM) and higher interest earnings contributed to the stronger revenues. On the expenditure side, while transportation and equipment costs were higher than expected, savings in utilities, purchased services, and staffing—due to unfilled mid-year resignations and the use of lower-cost substitutes—helped keep overall expenses below budget.

**Food Service Fund** - The Food Service Fund saw an increase of \$68,420 in the fund balance. The free meal program passed by state legislation has increased the number of meals that are being served. This has resulted in higher reimbursements from the state. While the primary goal of the food service program is to achieve at least a break-even point, the increased fund balance has enabled the district to address equipment repairs and replacements across all buildings as needed.

**Community Service Fund** - The Community Service Fund saw an increase of \$100,920 in its balance. Community Education programs have been rebuilt following the impacts of COVID-19 and the transitions to a new director and ECFE coordinator. The addition of the all-day Laker Care program has contributed to increased revenues. The Community Service Fund will continue to be closely monitored with a focus on maintaining a fund balance, as the primary goal remains achieving at least a break-even point for the program.

## **Independent School District No. 2687 Management's Discussion and Analysis**

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

During fiscal year 2003, the District hired Industrial Appraisal to take a complete asset inventory. The process was completed in February 2003, which provided the District with a list of capital assets with a value of \$1,000 or more. Capital assets are now maintained on the District's financial software and additions and deletions are updated on a continual basis. Detailed information regarding the District's capital assets can be found in the notes to the basic financial statements. The threshold for capital assets was raised to \$6,000 in fiscal year 2024.

#### **Long-Term Debt**

At year-end, the District had \$33,207,491 of long-term debt, not including compensated absences payable or severance payable. The parts included in the above total are bonded indebtedness in the amount of \$29,740,554, financed purchase agreements payable of \$3,057,937, and capital notes of \$409,000. More detailed information regarding the District's long-term liabilities can be found in the notes to the basic financial statements.

### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

- Enrollment continues to be the main factor in calculating revenue for the District. Since Minnesota school districts are paid based on pupil units served, a decline in enrollment results in less revenue being received for operations and an increase in enrollment results in more revenue being received. The District makes a concerted effort each year to follow the enrollment and match their expenditures to the enrollment. In fiscal year 2025, the District continued these discussions. Enrollment is about 12 students lower for fiscal year 2025 compared to the prior year at this same time and is 12 students higher than was projected in the budget. Enrollment trends will continue to be watched carefully in the future.
- The State Legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. School districts received a 4% increase for 2023-24 and another 2% increase for 2024-25. Recent elections for legislators at the state level could have an effect of future funding.
- Several upcoming changes will impact district expenses. Effective July 1, 2025, employer contribution rates will increase by 2.75% for the Public Employees Retirement Association (PERA) and by 1.06% for the Teachers Retirement Association (TRA). Implementation of Minnesota's Paid Family and Medical Leave program on January 1, 2026, will also add new costs. In addition, the district will begin assuming responsibility for summer unemployment expenses as the state's unemployment fund becomes depleted.
- On November 7, 2023, district taxpayers approved a proposed operating levy of \$600 per pupil. This additional revenue has helped ensure the district has the necessary funding to sustain its operations effectively.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This report is designed to provide the District's citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact the District Office, HLWW ISD No. 2687, P.O. Box 708, Howard Lake, Minnesota, 55349.

## **BASIC FINANCIAL STATEMENTS**

ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Statement of Net Position  
June 30, 2025

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 5,816,956
Current property taxes receivable	3,162,065
Delinquent property taxes receivable	54,058
Accounts receivable	30,016
Due from Department of Education	1,659,244
Due from Federal Government through Department of Education	186,867
Due from other Minnesota school districts	42,328
Inventory	18,909
Prepaid items	165,608
Equity interest in joint venture	165,138
Capital assets not being depreciated	
Land	2,234,145
Capital assets being depreciated	
Land improvements	1,689,586
Buildings	54,930,612
Equipment and vehicles	2,932,380
Less accumulated depreciation	<u>(18,681,454)</u>
Total assets	<u>54,406,458</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	2,393,314
Deferred outflows of resources related to OPEB	<u>70,476</u>
Total deferred outflows of resources	<u>2,463,790</u>
 Total assets and deferred outflows of resources	 <u>\$ 56,870,248</u>
<b>Liabilities</b>	
Accounts payable	\$ 143,938
Salaries and benefits payable	1,641,098
Interest payable	484,027
Due to other Minnesota school districts	18,213
Unearned revenue	42,860
Bond principal payable	
Payable within one year	2,000,000
Payable after one year	27,740,554
Financed purchase agreements payable	
Payable within one year	388,596
Payable after one year	2,669,341
Capital note payable	
Payable within one year	58,000
Payable after one year	351,000
Compensated absences payable	
Payable within one year	170,667
Payable after one year	642,309
Severance payable	
Payable within one year	63,559
Total OPEB liability	
Payable within one year	67,679
Payable after one year	704,721
Net pension liability	<u>8,098,670</u>
Total liabilities	<u>45,285,232</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	5,863,053
Deferred inflows of resources related to pensions	3,086,997
Deferred inflows of resources related to OPEB	<u>216,216</u>
Total deferred inflows of resources	<u>9,166,266</u>
<b>Net Position</b>	
Net investment in capital assets	9,897,778
Restricted for	
Debt service	197,762
Other purposes	868,911
Unrestricted	<u>(8,545,701)</u>
Total net position	<u>2,418,750</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 56,870,248</u>

See notes to basic financial statements.

ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Statement of Activities  
Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Administration	\$ 668,308	\$ -	\$ -	\$ -	\$ (668,308)
District support services	696,108	-	80,021	-	(616,087)
Elementary and secondary regular instruction	7,741,473	273,236	1,561,854	168,179	(5,738,204)
Vocational education instruction	498,969	14,455	7,498	-	(477,016)
Special education instruction	3,012,837	65,654	2,733,639	-	(213,544)
Instructional support services	778,909	78,419	360,547	-	(339,943)
Pupil support services	2,660,281	24,997	116,620	-	(2,518,664)
Sites and buildings	2,970,129	195,451	-	338,565	(2,436,113)
Fiscal and other fixed cost programs	119,440	-	-	-	(119,440)
Food service	1,345,227	189,798	1,205,095	-	49,666
Community education and services	1,018,202	696,984	294,511	-	(26,707)
Interest and fiscal charges on long-term debt	1,056,175	-	-	-	(1,056,175)
<b>Total governmental activities</b>	<b>\$ 22,566,058</b>	<b>\$ 1,538,994</b>	<b>\$ 6,359,785</b>	<b>\$ 506,744</b>	<b>(14,160,535)</b>
General revenues					
Taxes					
Property taxes, levied for general purposes					2,924,759
Property taxes, levied for community service					122,708
Property taxes, levied for debt service					2,691,232
State aid-formula grants					11,291,948
Other general revenues					179,596
Investment income					161,621
Total general revenues					<u>17,371,864</u>
Change in net position					3,211,329
Net position - beginning, as previously stated					(75,223)
Change in accounting principle (Note 9)					(717,356)
Net position - beginning, as restated					<u>(792,579)</u>
Net position - ending					<u>\$ 2,418,750</u>

See notes to basic financial statements.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Balance Sheet - Governmental Funds**  
**June 30, 2025**

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 3,105,569	\$ 2,052,253	\$ 659,134	\$ 5,816,956
Current property taxes receivable	1,375,184	1,700,579	86,302	3,162,065
Delinquent property taxes receivable	23,980	28,727	1,351	54,058
Accounts receivable	23,181	-	6,835	30,016
Due from Department of Education	1,508,696	44,160	106,388	1,659,244
Due from Federal Government through Department of Education	131,997	-	54,870	186,867
Due from other Minnesota school districts	38,223	-	4,105	42,328
Inventory	-	-	18,909	18,909
Prepaid items	162,123	-	3,485	165,608
<b>Total assets</b>	<b>\$ 6,368,953</b>	<b>\$ 3,825,719</b>	<b>\$ 941,379</b>	<b>\$ 11,136,051</b>
<b>Liabilities</b>				
Accounts payable	\$ 140,297	\$ -	\$ 3,641	\$ 143,938
Salaries and benefits payable	1,548,421	-	92,677	1,641,098
Due to other Minnesota school districts	18,213	-	-	18,213
Unearned revenue	-	-	42,860	42,860
<b>Total liabilities</b>	<b>1,706,931</b>	<b>-</b>	<b>139,178</b>	<b>1,846,109</b>
<b>Deferred Inflows of Resources</b>				
Property taxes levied for subsequent year's expenditures	2,538,975	3,143,930	180,148	5,863,053
Unavailable revenue - delinquent taxes	23,980	28,727	1,351	54,058
<b>Total deferred inflows of resources</b>	<b>2,562,955</b>	<b>3,172,657</b>	<b>181,499</b>	<b>5,917,111</b>
<b>Fund Balances</b>				
Nonspendable	162,123	-	22,394	184,517
Restricted	246,858	653,062	598,308	1,498,228
Assigned	3,271	-	-	3,271
Unassigned	1,686,815	-	-	1,686,815
<b>Total fund balances</b>	<b>2,099,067</b>	<b>653,062</b>	<b>620,702</b>	<b>3,372,831</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 6,368,953</b>	<b>\$ 3,825,719</b>	<b>\$ 941,379</b>	<b>\$ 11,136,051</b>

ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
 Reconciliation of the Balance Sheet to  
 the Statement of Net Position - Governmental Funds  
 June 30, 2025

Total fund balances - governmental funds	\$ 3,372,831
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	61,786,723
Less accumulated depreciation	(18,681,454)
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.	
Equity interest in joint venture - Wright Technical Center	165,138
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(27,625,000)
Premium on bonds payable	(2,115,554)
Financed purchase agreements payable	(3,057,937)
Capital note payable	(409,000)
Compensated absences payable	(812,976)
Severance payable	(63,559)
Total OPEB liability	(772,400)
Net pension liability	(8,098,670)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	2,393,314
Deferred inflows of resources related to pensions	(3,086,997)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences related to OPEB that are not recognized in the governmental funds.	
Deferred outflows of resources related to OPEB	70,476
Deferred inflows of resources related to OPEB	(216,216)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
	54,058
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	
	(484,027)
Total net position - governmental activities	<u>\$ 2,418,750</u>

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2025**

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>				
Local property taxes	\$ 2,917,100	\$ 2,687,518	\$ 122,624	\$ 5,727,242
Other local and county revenues	1,414,362	21,378	758,496	2,194,236
Revenue from state sources	15,269,944	441,596	933,414	16,644,954
Revenue from federal sources	251,429	-	523,198	774,627
Sales and other conversion of assets	-	-	189,798	189,798
Total revenues	<u>19,852,835</u>	<u>3,150,492</u>	<u>2,527,530</u>	<u>25,530,857</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	670,237	-	-	670,237
District support services	695,065	-	-	695,065
Elementary and secondary regular instruction	7,726,070	-	-	7,726,070
Vocational education instruction	498,270	-	-	498,270
Special education instruction	3,050,986	-	-	3,050,986
Instructional support services	553,757	-	-	553,757
Pupil support services	2,727,669	-	-	2,727,669
Sites and buildings	1,727,552	-	-	1,727,552
Fiscal and other fixed cost programs	119,440	-	-	119,440
Food service	-	-	1,259,535	1,259,535
Community education and services	5,355	-	1,022,731	1,028,086
<b>Capital outlay</b>				
Elementary and secondary regular instruction	161,993	-	-	161,993
Special education instruction	581	-	-	581
Instructional support services	292,704	-	-	292,704
Pupil support services	287	-	-	287
Sites and buildings	31,344	-	-	31,344
Food service	-	-	75,924	75,924
<b>Debt service</b>				
Principal	387,811	1,993,000	-	2,380,811
Interest and fiscal charges	95,776	1,148,247	-	1,244,023
Total expenditures	<u>18,744,897</u>	<u>3,141,247</u>	<u>2,358,190</u>	<u>24,244,334</u>
Excess of revenues over (under) expenditures	1,107,938	9,245	169,340	1,286,523
<b>Other Financing Sources (Uses)</b>				
Insurance recovery	570	-	-	570
Net change in fund balances	1,108,508	9,245	169,340	1,287,093
<b>Fund Balances</b>				
Beginning of year	<u>990,559</u>	<u>643,817</u>	<u>451,362</u>	<u>2,085,738</u>
End of year	<u>\$ 2,099,067</u>	<u>\$ 653,062</u>	<u>\$ 620,702</u>	<u>\$ 3,372,831</u>

See notes to basic financial statements.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to**  
**the Statement of Activities - Governmental Funds**  
**Year Ended June 30, 2025**

Net change in fund balances - total governmental funds	\$ 1,287,093
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlays	444,218
Depreciation expense	(1,458,491)
<p>Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.</p>	
	7,515
<p>Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.</p>	
	(57,636)
<p>Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.</p>	
	(5,938)
<p>OPEB are recognized as they are paid in the governmental funds but are recognized as the expense in incurred in the Statement of Activities</p>	
	(15,891)
<p>Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.</p>	
	430,343
<p>Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Net Position.</p>	
	2,380,811
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(13,916)
<p>Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>	
	201,764
<p>Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.</p>	
	11,457
Change in net position - governmental activities	\$ 3,211,329

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2025**

	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
Other local and county revenues	1,201,695	1,258,395	1,414,362	155,967
Revenue from state sources	14,927,767	15,292,440	15,269,944	(22,496)
Revenue from federal sources	236,000	243,630	251,429	7,799
Total revenues	<u>19,213,976</u>	<u>19,642,979</u>	<u>19,852,835</u>	<u>209,856</u>
<b>Expenditures</b>				
<b>Current</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	8,100,027	8,232,454	7,726,070	(506,384)
Vocational education instruction	523,492	512,873	498,270	(14,603)
Special education instruction	3,166,682	3,164,408	3,050,986	(113,422)
Instructional support services	477,125	518,191	553,757	35,566
Pupil support services	2,418,278	2,681,499	2,727,669	46,170
Sites and buildings	1,788,177	1,960,655	1,727,552	(233,103)
Fiscal and other fixed cost programs	145,000	130,000	119,440	(10,560)
Community education and services	797	4,700	5,355	655
<b>Capital outlay</b>				
Elementary and secondary regular instruction	19,100	154,100	161,993	7,893
Special education instruction	-	-	581	581
Instructional support services	192,800	192,800	292,704	99,904
Pupil support services	-	-	287	287
Sites and buildings	30,000	47,500	31,344	(16,156)
<b>Debt service</b>				
Principal	378,011	388,511	387,811	(700)
Interest and fiscal charges	91,728	91,728	95,776	4,048
Total expenditures	<u>18,680,095</u>	<u>19,447,727</u>	<u>18,744,897</u>	<u>(702,830)</u>
Excess of revenues over (under) expenditures	533,881	195,252	1,107,938	912,686
<b>Other Financing Sources (Uses)</b>				
Insurance recovery	-	550	570	20
Net change in fund balances	<u>\$ 533,881</u>	<u>\$ 195,802</u>	1,108,508	<u>\$ 912,706</u>
<b>Fund Balances</b>				
Beginning of year			<u>990,559</u>	
End of year			<u>\$ 2,099,067</u>	

See notes to basic financial statements.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**A. Reporting Entity**

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the basic financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under board control and are reported in the General Fund.

**Joint Ventures**

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 10.

**B. Basic Financial Statement Information**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basic Financial Statement Information (Continued)**

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner.

**1. Revenue Recognition**

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available, and applies unrestricted funds in this order: committed, assigned, and unassigned, with the exception that restricted, committed, or assigned fund balance spending may be deferred and unassigned resources spent first if fund balances need to be preserved to facilitate future expenditure plans.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**Description of Funds:**

**Major Funds:**

General Fund - This fund is the basic operating fund of the District and includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, and disabled accessibility projects.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest, and related costs.

**Nonmajor Funds:**

Food Service Special Revenue Fund - This fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund - This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services.

**D. Deposits and Investments**

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

Cash and investments at June 30, 2025, were comprised of deposits, and shares in the Minnesota School District Liquid Asset Fund (MSDLAF).

*Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

*Minnesota Statutes* authorizes the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

In accordance with GASB Statement No. 79, the various MSDLAF securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Property Tax Receivable**

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2023, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2025. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventory**

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

**H. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

**I. Property Taxes**

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Wright, McLeod, and Carver Counties are the collecting agencies for the levy and remit the collections to the District three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

**J. Capital Assets**

Capital assets are recorded in the government-wide financial statements but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$6,000 with an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Capital Assets (Continued)**

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment and vehicles.

Capital assets not being depreciated include land. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

**K. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The District has two items that qualify for reporting in this category. Deferred outflows of resources related to pensions and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the Governmental Fund financial statements during the year for which they are levied, if available. The third item is a deferred inflows of resources related to pensions and is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. Deferred inflows of resources related to OPEB is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

**L. Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Long-Term Obligations (Continued)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**M. Compensated Absences**

The liability for compensated absences reported in the Statement of Net Position consists of leave that has not been used that is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability also includes amounts for leave that has been used for time off but has not yet been paid in cash or settled through noncash means and certain other types of leave.

Vacation pay is earned at various rates by certain employees and accrued as compensated absences in the Statement of Net Position. Substantially all employees are entitled to sick leave at various rates. Most employees are not compensated for unused sick leave upon a qualified termination of employment.

**N. Severance Benefits**

Severance benefits consist of lump sum retirement payments.

Principals are eligible for severance pay upon retirement once he/she has completed five years of service with the District. Severance pay is equal to 35 days of pay. One additional day of severance pay shall be added for every year of employment thereafter.

**O. Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

**P. Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2025.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Fund Equity**

**1. Classification**

In the fund financial statements, governmental funds report various levels of spending constraints.

- **Nonspendable Fund Balances** - These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include prepaid items and inventory.
- **Restricted Fund Balances** - These are subject to externally enforceable legal restrictions set by either statute or creditors.
- **Committed Fund Balances** - These are amounts that can be used for specific purposes pursuant to the constraint imposed by the School Board, the highest level of decision making authority. Such designations will be approved by a majority vote of the School Board.
- **Assigned Fund Balances** - These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The School Board, by majority vote, may assign fund balances to be used for a specific purpose when appropriate. The board also delegates the power to assign fund balances to the Superintendent.
- **Unassigned Fund Balances** - These are amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

**2. Minimum Fund Balance Policy**

The District will strive to construct an adequate unassigned General Fund balance of a minimum of 8% of the prior year's expenditures and a maximum of 20% of the prior year's expenditures. When the unassigned General Fund balance is projected to drop below 8%, the District shall initiate measures to generate additional revenue or reduce expenditures through a budget reduction or a combination of both. If there is a need to move below the set reserved minimum, the action must be temporary and the District must regain a minimum 8% fund balance by the close of the ensuing year. If there is a need to move above the set reserved maximum, the Finance Committee along with the School Board will develop a plan to spend down the excess fund balance in a manner that benefits the District and the increase must be approved by a majority vote of the School Board, stipulating the amount of the increase, and the duration of time it is to be maintained.

**R. Net Position**

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**S. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**T. Budgetary Information**

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Prior to July 1, the School Board adopts an annual budget for the following year for the General, Food Service, Community Service, Building Construction, and Debt Service Funds. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Director of Finance and Operation submits to the School Board prior to July 1, a proposed operating budget for the year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Budget revisions are presented and approved by the School Board in the spring.

Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at a decentralized level.

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

**Custodial Credit Risk - Deposits:** This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* § 118.03 for an amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, FCUA, or other federal deposit coverage. As of June 30, 2025, the District's bank balance was not exposed to custodial credit risk because it was properly insured and collateralized.

The District's deposits had a book balance as listed below.

Checking - pooled	<u>\$ 142,963</u>
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**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments**

As of June 30, 2025, the District had the following investments:

<u>Type of Investments</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Less than 1 year</u>
Pooled Investments			
MSDLAF	AAA	\$ 1,627,118	\$ 1,627,118
MSDLAF MAX	AAA	4,044,950	4,044,950
		<u>\$ 5,672,068</u>	<u>\$ 5,672,068</u>
Total pooled investments		<u>\$ 5,672,068</u>	<u>\$ 5,672,068</u>

**Credit Risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy refers to *Minnesota Statutes* §§ 118A.04 through 118A.05. *Minnesota Statutes* outline allowable investments. The District will minimize credit risk by limiting investments to those allowed by statutory constraints. As of June 30, 2025, the District's investments were rated as noted in the table above.

**Interest Rate Risk:** This is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy states the portfolio shall be managed in a manner to attain a market rate of return through budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investment maturities shall be scheduled to coincide with projected cash flow needs.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states investments should be diversified to avoid incurring risks inherent in over investing to avoid over concentration in securities from a specific issuer or business sector, limiting investments in securities that have a high credit risk, investing in securities with varying maturities and investing a portion of the portfolio in readily available funds. The policy does not state the maximum percentage of the District's portfolio that may be invested in a single type of investment.

**Custodial Credit Risk - Investments:** This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states all investments shall be held in third party safekeeping by an institution designated as custodial agent as defined under *Minnesota Statutes* § 118A.06.

Below is a summary of total deposits and investments:

Deposits - pooled	\$ 142,963
Petty cash	1,925
Investments - pooled	<u>5,672,068</u>
Total cash and investments	<u>\$ 5,816,956</u>

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

Deposits and investments at June 30, 2025, are presented as follows:

Statement of Net Position	
Governmental Activities	<u><u>\$ 5,816,956</u></u>

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,234,145	\$ -	\$ -	\$ 2,234,145
Capital assets being depreciated				
Land improvements	1,689,586	-	-	1,689,586
Buildings	54,930,612	-	-	54,930,612
Equipment and vehicles	2,488,162	444,218	-	2,932,380
Total capital assets being depreciated	<u>59,108,360</u>	<u>444,218</u>	<u>-</u>	<u>59,552,578</u>
Less accumulated depreciation for				
Land improvements	737,193	81,274	-	818,467
Buildings	15,128,563	1,056,860	-	16,185,423
Equipment and vehicles	1,357,207	320,357	-	1,677,564
Total accumulated depreciation	<u>17,222,963</u>	<u>1,458,491</u>	<u>-</u>	<u>18,681,454</u>
Total capital assets being depreciated, net	<u>41,885,397</u>	<u>(1,014,273)</u>	<u>-</u>	<u>40,871,124</u>
Governmental activities, capital assets, net	<u>\$ 44,119,542</u>	<u>\$ (1,014,273)</u>	<u>\$ -</u>	<u>\$ 43,105,269</u>

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 3 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense of \$1,458,491 for the year ended June 30, 2025, was charged to the following governmental functions:

District Support Services	\$ 296
Elementary and Secondary Regular Instruction	46,170
Vocational Education Instruction	3,540
Special Education Instruction	1,259
Instructional Support Services	144,696
Pupil Support Services	6,937
Sites and Buildings	1,240,625
Food Service	14,968
	14,968
Total depreciation expense	\$ 1,458,491

**NOTE 4 - LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. Bonds						
2014B School Building Refunding Bonds	12/30/14	2.00%-4.00%	\$ 22,360,000	02/01/32	\$ 11,140,000	\$ 1,450,000
2017A G.O. Facilities Maintenance Bonds	03/09/17	1.35%-2.85%	1,345,000	02/01/32	875,000	100,000
2024A School Building Refunding Bonds	02/12/24	4.00%-5.00%	16,040,000	02/01/37	15,610,000	450,000
Total G.O. bonds					27,625,000	2,000,000
Bond premium					2,115,554	-
2021A G.O. Capital Notes	12/29/21	1.35%	525,000	08/01/31	409,000	58,000
Financed purchase agreements from direct borrowing					3,057,937	388,596
Compensated absences payable					812,976	170,667
Severance payable					63,559	63,559
					63,559	63,559
Total long-term liabilities					\$ 34,084,026	\$ 2,680,822

Long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. Other long-term liabilities such as financed purchase agreements, severance, and compensated absences payable are typically liquidated through the General Fund.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 4 - LONG-TERM DEBT (CONTINUED)**

**A. Components of Long-Term Liabilities (Continued)**

On May 19, 2015, the District entered into a financed purchase agreement related to the MAWSECO building. The agreement obligation and corresponding building totaled \$2,962,500. The agreement includes semi-annual principal payments of \$121,790.

On August 26, 2020, the District entered into a financed purchase agreement for the acquisition of modular classrooms. The agreement obligation and corresponding equipment totaled \$168,000. The agreement includes monthly principal payments of \$3,500.

On November 20, 2020, the District entered into a financed purchase agreement related to a gymnasium. The agreement obligation and corresponding building totaled \$1,927,100. The agreement includes semi-annual principal and interest payments of \$79,011.

On December 1, 2021, the District entered into a financed purchase agreement for the acquisition of farm site land. The agreement obligation and corresponding equipment totaled \$590,700. The agreement includes semi-annual principal and interest payments of \$34,068.

**B. Minimum Debt Payments for Bonds and Lease Purchase Agreement**

Minimum annual principal and interest payments required to retire bond, capital note, and financed purchase agreement liabilities:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2026	\$ 2,000,000	\$ 1,115,629	\$ 3,115,629
2027	2,100,000	1,047,479	3,147,479
2028	2,210,000	975,284	3,185,284
2029	2,315,000	898,644	3,213,644
2030	2,405,000	817,631	3,222,631
2031-2035	11,490,000	2,753,411	14,243,411
2036-2038	5,105,000	333,700	5,438,700
Total	<u>\$ 27,625,000</u>	<u>\$ 7,941,778</u>	<u>\$ 35,566,778</u>

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 4 - LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments for Bonds and Lease Purchase Agreement (Continued)**

Year Ending June 30,	G.O. Capital Notes		
	Principal	Interest	Total
2026	\$ 58,000	\$ 5,326	\$ 63,326
2027	60,000	4,536	64,536
2028	60,000	3,726	63,726
2029	61,000	2,916	63,916
2030	62,000	2,086	64,086
2031-2033	108,000	1,552	109,552
Total	<u>\$ 409,000</u>	<u>\$ 20,142</u>	<u>\$ 429,142</u>
	Financed Purchase Agreements from Direct Borrowing		
Year Ending June 30,	Principal	Interest	Total
2026	\$ 388,596	\$ 81,142	\$ 469,738
2027	399,478	70,261	469,739
2028	410,665	59,073	469,738
2029	422,166	47,573	469,739
2030	433,989	35,750	469,739
2031-2035	848,107	78,277	926,384
2036-2037	154,936	3,086	158,022
Total	<u>\$ 3,057,937</u>	<u>\$ 375,162</u>	<u>\$ 3,433,099</u>

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 4 - LONG-TERM DEBT (CONTINUED)**

**C. Changes in Long-Term Liabilities**

	Beginning Balance	Change in Accounting Principle	Additions	Reductions	Ending Balance
Long-term liabilities					
G.O. Bonds	\$ 29,560,000	\$ -	\$ -	\$ 1,935,000	\$ 27,625,000
Bond premium	2,317,318	-	-	201,764	2,115,554
Capital notes	467,000	-	-	58,000	409,000
Financed purchase agreements from direct borrowing	3,445,748	-	-	387,811	3,057,937
Compensated absences payable	37,984	717,356	57,636	-	812,976
Severance payable	57,621	-	5,938	-	63,559
	<u>35,885,671</u>	<u>717,356</u>	<u>63,574</u>	<u>2,582,575</u>	<u>34,084,026</u>
Total long-term liabilities	<u>\$ 35,885,671</u>	<u>\$ 717,356</u>	<u>\$ 63,574</u>	<u>\$ 2,582,575</u>	<u>\$ 34,084,026</u>

The changes in the compensated absences and severance liabilities are presented as a net change.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 5 - FUND BALANCES**

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities or as required by other outside parties.

**A. Fund Balance**

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable for				
Inventory	\$ -	\$ -	\$ 18,909	\$ 18,909
Prepaid items	162,123	-	3,485	165,608
Total nonspendable	<u>162,123</u>	<u>-</u>	<u>22,394</u>	<u>184,517</u>
Restricted/reserved for				
Student Activities	115,047	-	-	115,047
Q Comp	(3,898)	-	-	(3,898)
Literacy Aid	50,707	-	-	50,707
Teacher Comp READ Act	16,975	-	-	16,975
Long-Term Facilities Maintenance	68,027	-	-	68,027
Debt Service	-	653,062	-	653,062
Food Service	-	-	522,224	522,224
Community Education	-	-	52,616	52,616
Community Service	-	-	23,468	23,468
Total restricted/reserved	<u>246,858</u>	<u>653,062</u>	<u>598,308</u>	<u>1,498,228</u>
Assigned for Acts of Kindness	<u>3,271</u>	<u>-</u>	<u>-</u>	<u>3,271</u>
Unassigned	<u>1,686,815</u>	<u>-</u>	<u>-</u>	<u>1,686,815</u>
Total fund balance	<u>\$ 2,099,067</u>	<u>\$ 653,062</u>	<u>\$ 620,702</u>	<u>\$ 3,372,831</u>

Nonspendable for Inventory - A portion of the fund balance has been spent on inventory and is not available for other uses.

Nonspendable for Prepaid Items - A portion of the fund balance has been spent on prepaid items and is not available for other uses.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 5 - FUND BALANCES (CONTINUED)**

**A. Fund Balance (Continued)**

Restricted/Reserved for Student Activities - This balance represents available resources to be used for the extracurricular activity funds raised by the students.

Restricted/Reserved for Quality Compensation - Alternative Teacher Professional Pay System - This balance represents available resources to be used for Quality Compensation - Alternative Teacher Professional Pay System. This balance was negative at year end June 30, 2025.

Restricted/Reserved for Literacy Aid - This balance represents resources available for literacy aid for evidence-based literacy supports for children in prekindergarten through grade 12 based on structured literacy.

Restricted/Reserved for Teacher Compensation for READ Act Training - This balance represents resources available for teacher compensation for Read Act training.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) - This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* § 123B.595, subd. 12).

Restricted for Debt Service - This balance represents resources available for payment of G.O. bond principal, interest, and related costs.

Restricted for Food Service - This balance represents resources available for payment of food service costs.

Restricted/Reserved for Community Education - This balance represents the resources available to provide programming such as: nonvocational, recreational, and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, and extended day programs.

Restricted/Reserved for Community Service - This balance represents the remaining positive fund balance of the Community Service Fund that is not restricted for other purposes.

Unassigned amounts represent resources available to meet current and future year's expenditures.

**B. Net Position**

Net position restricted for other purposes is comprised of the total positive General Fund restricted/reserved fund balances plus the positive net position in the Food Service and Community Service Funds.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE**

The District participates in various pension plans. Total pension expense for the year ended June 30, 2025, was \$746,699. The components of pension expense are noted in the following plan summaries.

The General Fund typically liquidates the Liability related to the pensions.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association**

**A. Plan Description**

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with *Minnesota Statutes* Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Retirement Plan (DCR) administered by Minnesota State. A teacher employed by Minnesota State and electing the DCR plan is not a member of TRA except for purposes of social security coverage.

**B. Benefits Provided**

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any consecutive 60 months of formula service, age and years of formula service credit at termination of service. TRA members belong to either the Basic or Coordinated Plan.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

*Tier I Benefits*

Tier I	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006, or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006, or after	1.9% per year

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

*Tier I Benefits (Continued)*

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3% per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

Or

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006, and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. An early retirement reduction is applied to members retiring prior to age 65. Members who reach age 62 with 30 years of service have a lower (more favorable to the member) reduction rate applied.

*Tier II Benefits*

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66. After July 1, 2024, the age will change to not to exceed 65. An early retirement reduction is applied to members retiring before age 66 but will be age 65 after July 1, 2024. Members who reach age 62 with 30 years of service have a lower (more favorable to the member) early retirement reduction rate applied.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**C. Contribution Rate**

Per *Minnesota Statutes* Chapter 354 sets the contribution rates for employees and employers. Rates for the fiscal year 2025 for coordinated were 7.75% for the employee and 8.75% for the employer. Basic rates were 11.25% for the employee and 12.75% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2025 were \$679,690. The District's contributions were equal to the required contributions for each year as set by state statute.

**D. Actuarial Assumptions**

The total pension liability in the July 1, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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**Actuarial Information**

Experience study	August 2, 2023 (demographic and economic assumptions)*
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028.
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028.
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

**Mortality Assumptions**

Pre-retirement	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Post-retirement	PubT-2010(A) Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Beneficiaries	Pub-2010(A) Contingent Survivor Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Disabled retirees	PubNS-2010 Disabled Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.

\* The assumptions prescribed are based on the experience study dated August 2, 2023. For GASB 67 purposes, the long-term rate of return assumptions is selected by TRA management in consultation with the actuary.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	33.5 %	5.10 %
International stocks	16.5	5.30
Private markets	25.0	5.90
Fixed income	25.0	0.75
 Total	 <u>100.0 %</u>	

Changes in actuarial assumptions since the previous valuation:

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub-2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint and Survivor Annuity were refined to reflect the actual experience.
- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.0%. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2022 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**E. Discount Rate (Continued)**

The discount rate used to measure the total pension liability was 7.0%. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2024 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**F. Net Pension Liability**

On June 30, 2025, the District reported a liability of \$6,818,186 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2024. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1073% at the end of the measurement period and 0.1118% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid and total portion of the net pension liability that was associated with the district were as follows:

District's proportionate share of net pension liability	\$ 6,818,186
State's proportionate share of the net pension liability associated with the District	445,794
Total	\$ 7,263,980

For the year ended June 30, 2025, the District recognized pension expense of \$585,942. Included in this amount, the District recognized \$24,506 as pension expense for the support provided by direct aid.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$176 million to the Fund. The State of Minnesota is not included as a non-employer contributing entity in the plan pension allocation schedules for the \$176 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$189,027 for the year ended June 30, 2025 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Fund.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability (Continued)**

As of June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 325,798	\$ 92,305
Changes in actuarial assumptions	723,440	813,087
Net difference between projected and actual investments earnings	-	976,512
Change in proportion	167,864	346,806
Contributions paid to TRA subsequent to the measurement date	679,690	-
Total	\$ 1,896,792	\$ 2,228,710

The \$679,690 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2026	\$ (444,630)
2027	649,937
2028	(578,015)
2029	(469,374)
2030	(169,526)
Total	\$ (1,011,608)

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.0%) and 1 percent higher (8.0%) than the current rate.

Sensitivity of NPL to Changes in the Discount Rate		
1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
\$ 12,007,225	\$ 6,818,186	\$ 2,547,484

**H. Pension Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That can be obtained at [www.minnesotatra.org](http://www.minnesotatra.org), or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000, or by calling (651) 296-2409 or (800) 657-3669.

**Public Employees' Retirement Association**

**A. Plan Description**

The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes* Chapters 353, 353D, 353E, 353G, and 356. *Minnesota Statutes* Chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

**General Employees Retirement Plan**

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

**B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service. When a member is "vested", they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

General Employees Plan Benefits

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any 5 successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of the highest average salary for all years of service. For members hired prior to July 1, 1989, a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. The 2024 annual increase was 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

**C. Contributions**

*Minnesota Statutes* Chapter 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

General Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2025 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2025, were \$224,014. The District's contributions were equal to the required contributions as set by state statute.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs**

General Employees Fund Pension Costs

At June 30, 2025, the District reported a liability of \$1,280,484 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$33,111.

School's proportionate share of net pension liability	\$ 1,280,484
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>33,111</u>
Total	<u><u>\$ 1,313,595</u></u>

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0346% at the end of the measurement period and 0.0338% for the beginning of the period.

For the year ended June 30, 2025, the District recognized pension expense of \$160,757 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$888 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedule for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$58,917 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

As June 30, 2025, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 118,820	\$ -
Changes in actuarial assumptions	5,594	476,096
Net difference between projected and actual investment earnings	-	382,191
Changes in proportion	148,094	-
Contributions paid to PERA subsequent to the measurement date	224,014	-
Total	\$ 496,522	\$ 858,287

The \$224,014 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2026	\$ (319,793)
2027	(23,665)
2028	(144,181)
2029	(98,140)
Total	\$ (585,779)

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Long-Term Expected Return on Investment**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	<u>100.0 %</u>	

**F. Actuarial Methods and Assumptions**

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0%. The 7.0% assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates considered reasonable by the actuary. An investment return of 7.0% is within that range.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The table is adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023, actuarial valuation.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**F. Actuarial Methods and Assumptions (Continued)**

The following changes in actuarial assumptions and plan provisions occurred in 2024:

**Changes in Actuarial Assumptions**

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: Increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

**Changes in Plan Provisions**

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

**G. Discount Rate**

The discount rate used to measure the total pension liability in 2024 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**H. Pension Liability Sensitivity**

The following table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
District's proportionate share of the PERA net pension liability	\$ 2,796,784	\$ 1,280,484	\$ 33,190

**I. Pension Plan Fiduciary Net Position**

Detailed information about the General Employees Fund's fiduciary net position is available in a separately issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 7 - POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The District provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees. No assets are acclimated in a trust.

**B. Benefits Provided**

The District provides benefits to certain employees and retirees based on different bargaining groups. The General Fund, Food Service Fund and Community Service Fund typically liquidate the Liability related to OPEB.

**C. Members**

As of July 1, 2023, the following were covered by the benefit terms:

Retirees currently receiving benefits	5
Active employees	<u>167</u>
Total	<u><u>172</u></u>

**D. Contributions**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For the fiscal year 2025, the District contributed \$54,071 to the plan.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 7 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

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Discount rate	4.10%
Salary increases	Service graded table
Inflation	2.50%
Medical trend rate	6.25% in 2024 grading to 5.00% over six years and then 4.00% over the next 48 years.
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.

The actuarial assumptions used in the valuation measured as of July 1, 2024, were based on the results of an actuarial experience study for period July 1, 2023 through June 30, 2024.

The discount rate used to measure the total OPEB liability was 4.1% using the 20-year municipal bond yield.

**F. Total OPEB Liability**

The District's total OPEB liability of \$772,400 was measured as of July 1, 2024, and was determined by an actuarial valuation as of July 1, 2023.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 7 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**F. Total OPEB Liability (Continued)**

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2024	<u>\$ 761,662</u>
Changes for the year	
Service cost	70,892
Interest cost	30,850
Assumption changes	(7,157)
Benefit payments	<u>(83,847)</u>
Net changes	<u>10,738</u>
Balances at June 30, 2025	<u><u>\$ 772,400</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.9% in 2024 to 4.1% in 2025.

**G. OPEB Liability Sensitivity**

The following presents the District's total OPEB liability calculated using the discount rate of 4.1% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

Total OPEB Liability		
1% Decrease in Trend Rate in Discount Rate (3.1%)	Current in Trend Rate in Discount Rate (4.1%)	1% Increase in Trend Rate in Discount Rate (5.1%)
\$ 819,166	\$ 772,400	\$ 727,438

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 7 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**G. OPEB Liability Sensitivity (Continued)**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current healthcare cost trend rates.

Total OPEB Liability		
1% Decrease in Trend Rate (5.25% Decreasing to 4.00%)	Current in Trend Rate (6.25% Decreasing to 5.00%)	1% Increase in Trend Rate (7.25% Decreasing to 6.00%)
\$ 730,044	\$ 772,400	\$ 822,659

**H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to OPEB**

For the year ended June 30, 2025, the District recognized OPEB expense of \$55,690. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability gains	\$ -	\$ 181,559
Assumption changes	16,405	34,657
Contributions subsequent to the measurement date	54,071	-
Total	\$ 70,476	\$ 216,216

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to Basic Financial Statements**

**NOTE 7 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to OPEB (Continued)**

The \$54,071 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2026. Remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ended	Total
2026	\$ (46,052)
2027	(31,953)
2028	(34,326)
2029	(22,474)
2030	(16,073)
Thereafter	(48,933)
Total	\$ (199,811)

**NOTE 8 - JOINT POWERS AGREEMENT**

The District entered into a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts and to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition is being financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost.

Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North, Buffalo, Minnesota 55313-1936.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Notes to Basic Financial Statements**

**NOTE 9 - CHANGE IN ACCOUNTING PRINCIPLE**

The government wide beginning net position for governmental activities was restated as a result of the implementation of GASB Statement No. 101, Compensated Absences.

	Reporting Units Affected by Adjustments to and Restatements of Beginning Balances
	Governmental Activities
6/30/2024, as previously reported	\$ (75,223)
Change in accounting principle	
GASB Statement No. 101 implementation	(717,356)
	\$ (792,579)

**REQUIRED SUPPLEMENTARY INFORMATION**

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Schedule of Changes in Total OPEB Liability**  
**and Related Ratios**

	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 40,741	\$ 41,963	\$ 41,485
Interest cost	15,838	16,557	17,096
Differences between expected and actual experience	-	-	(80,514)
Assumption changes	-	-	(18,221)
Plan changes	-	-	83,814
Benefit payments	(41,519)	(31,706)	(52,825)
Other changes	-	-	-
Net change in total OPEB liability	<u>15,060</u>	<u>26,814</u>	<u>(9,165)</u>
Beginning of year	<u>445,661</u>	<u>460,721</u>	<u>487,535</u>
End of year	<u>\$ 460,721</u>	<u>\$ 487,535</u>	<u>\$ 478,370</u>
Covered payroll	\$ 7,092,769	\$ 7,305,552	\$ 7,359,163
Total OPEB liability as a percentage of covered-employee payroll	6.50%	6.67%	6.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>	<u>June 30, 2025</u>
\$ 47,233	\$ 53,893	\$ 43,276	\$ 70,754	\$ 70,892
15,762	12,787	10,003	20,791	30,850
-	(100,126)	-	(158,935)	-
16,640	17,189	(42,017)	5,364	(7,157)
-	23,844	-	358,442	-
(34,589)	(89,197)	(17,202)	(22,068)	(83,847)
-	-	-	51,648	-
<u>45,046</u>	<u>(81,610)</u>	<u>(5,940)</u>	<u>325,996</u>	<u>10,738</u>
<u>478,370</u>	<u>523,416</u>	<u>441,606</u>	<u>435,666</u>	<u>761,662</u>
<u>\$ 523,416</u>	<u>\$ 441,806</u>	<u>\$ 435,666</u>	<u>\$ 761,662</u>	<u>\$ 772,400</u>
\$ 7,579,938	\$ 7,922,809	\$ 8,160,493	\$ 8,627,882	\$ 8,886,718
6.91%	5.58%	5.34%	8.83%	8.69%

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Schedule of District's and Non-Employer Proportionate Share  
of Net Pension Liability - General Employees Retirement Fund  
Last Ten Years**

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0362%	\$ 1,876,072	\$ -	\$ 1,876,072	\$ 2,090,893	89.7%	78.2%
2017	0.0354%	2,874,304	37,474	2,911,778	2,194,080	131.0%	68.9%
2018	0.0333%	2,125,850	26,705	2,152,555	2,143,160	99.2%	75.9%
2019	0.0306%	1,697,563	55,677	1,753,240	2,058,053	82.5%	79.5%
2020	0.0295%	1,630,989	50,664	1,681,653	2,089,747	78.0%	80.2%
2021	0.0307%	1,840,605	56,853	1,897,458	2,191,947	84.0%	79.1%
2022	0.0308%	1,315,298	40,242	1,355,540	2,220,120	59.2%	87.0%
2023	0.0310%	2,455,210	71,960	2,527,170	2,322,253	105.7%	76.7%
2024	0.0338%	1,890,058	52,055	1,942,113	2,688,907	70.3%	83.1%
2025	0.0346%	1,280,484	33,111	1,313,595	2,931,467	43.7%	89.1%

**Schedule of District's and Non-Employer Proportionate Share  
of Net Pension Liability - TRA Retirement Fund  
Last Ten Years**

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0951%	\$ 5,882,876	\$ 721,828	\$ 6,604,704	\$ 4,828,120	121.8%	76.8%
2017	0.1003%	23,923,943	2,402,047	26,325,990	5,216,187	458.6%	44.9%
2018	0.1059%	21,139,561	2,042,842	23,182,403	5,699,213	370.9%	51.6%
2019	0.1079%	6,777,130	636,530	7,413,660	5,962,987	113.7%	78.1%
2020	0.1071%	6,826,576	604,245	7,430,821	6,080,752	112.3%	78.2%
2021	0.1076%	7,949,632	666,104	8,615,736	6,255,328	127.1%	75.5%
2022	0.1129%	4,940,842	416,630	5,357,472	6,756,740	73.1%	86.6%
2023	0.1112%	8,904,308	660,501	9,564,809	6,875,348	129.5%	76.2%
2024	0.1118%	9,230,458	646,411	9,876,869	7,110,760	129.8%	76.4%
2025	0.1073%	6,818,186	445,794	7,263,980	7,106,491	95.9%	82.1%

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Schedule of District Contributions**  
**General Employees Retirement Fund**  
**Last Ten Years**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	\$ 164,556	\$ 164,556	\$ -	\$ 2,194,080	7.50%
2017	160,737	160,737	-	2,143,160	7.50%
2018	154,354	154,354	-	2,058,053	7.50%
2019	156,731	156,731	-	2,089,747	7.50%
2020	164,396	164,396	-	2,191,947	7.50%
2021	166,509	166,509	-	2,220,120	7.50%
2022	174,169	174,169	-	2,322,253	7.50%
2023	201,668	201,668	-	2,688,907	7.50%
2024	219,860	219,860	-	2,931,467	7.50%
2025	224,014	224,014	-	2,986,853	7.50%

**Schedule of District Contributions**  
**TRA Retirement Fund**  
**Last Ten Years**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	\$ 391,214	\$ 391,214	\$ -	\$ 5,216,187	7.50%
2017	427,441	427,441	-	5,699,213	7.50%
2018	447,224	447,224	-	5,962,987	7.50%
2019	468,826	468,826	-	6,080,752	7.71%
2020	495,422	495,422	-	6,255,328	7.92%
2021	549,323	549,323	-	6,756,740	8.13%
2022	573,404	573,404	-	6,875,348	8.34%
2023	607,970	607,970	-	7,110,760	8.55%
2024	621,818	621,818	-	7,106,491	8.75%
2025	679,690	679,690	-	7,767,886	8.75%

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to the Required Supplementary Information**

**TRA Retirement Fund**

**2024 Changes**

Changes in Actuarial Assumptions

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub-2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint and Survivor Annuity were refined to reflect the actual experience.
- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

Changes of Benefit Terms

- The Normal Retirement Age (NRA) for active and eligible deferred Tier II members will be 65 effective July 1, 2024.

**2023 Changes**

Changes in Actuarial Assumptions

- None

**2022 Changes**

Changes in Actuarial Assumptions

- None

**2021 Changes**

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.5% to 7.0%.

**2020 Changes**

Changes in Actuarial Assumptions

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

**2019 Changes**

Changes in Actuarial Assumptions

- None

**2018 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2018 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

- The cost-of-living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

**2017 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%.
- The cost-of-living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

**2016 Changes**

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2016 Changes (Continued)**

**Changes in Actuarial Assumptions (Continued)**

- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

**2015 Changes**

**Changes of Benefit Terms**

- The DTRFA was merged into TRA on June 30, 2015.

**Changes in Actuarial Assumptions**

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to the Required Supplementary Information**

**General Employees Fund**

**2024 Changes**

Changes in Actuarial Assumptions

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: Increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

**2023 Changes**

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5% to 7.0%.

Changes in Plan Provisions

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

**2022 Changes**

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

**2021 Changes**

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2020 Changes**

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2020 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**2019 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

**2018 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2018 Changes (Continued)**

Changes in Plan Provisions (Continued)

- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. This does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**2017 Changes**

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

**2016 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation was decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions

There have been no changes since the prior valuation.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2015 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to the Required Supplementary Information**

**Post Employment Health Care Plan**

The District does not have any asset set aside in a trust fund to fund this liability.

**2024 Changes**

Assumption Changes

- The discount rate was changed from 3.90% to 4.10%.

**2023 Changes**

Assumption Changes

- The discount rate was changed from 3.80% to 3.90%.
- The health care trend rates and mortality tables were updated.
- Teachers with at least 15 years of service and at least age 55 that were hired before January 1st, 2024 are eligible to receive a lump sum payment of \$25,000 payable to a VEBA/HRA account in the year of their retirement.
- Principals with at least 5 years of service are eligible to receive a severance benefit based on 35 plus one day for every year of service past the 5th up to year 10 plus two days for every year of service past the 10th year multiplied by their daily rate of pay at the time of retirement which is paid into a VEBA Health Savings Account.

**2022 Changes**

Assumption Changes

- The discount rate was changed from 2.10% to 3.80%.
- The inflation rate was changed from 2.00% to 2.50%.
- A post-employment medical early retirement incentive benefit was offered for Teachers, with at least 10 years of service and at least age 55, that retired in the 2022-2023 fiscal year with a lump sum payment of \$15,000 payable to a VEBA/HRA account during the fiscal year ending June 30, 2024.

**2021 Changes**

Assumption Changes

- The health care trend rates were changed to better anticipate short term and long-term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale.
- The salary increase rates for non-teachers were updated to reflect the latest experience study.
- The withdrawal rates were updated to reflect the latest experience study.
- The inflation rate was changed from 2.50% to 2.00%.
- The discount rate was changed from 2.40% to 2.10%.

Plan Changes

- The Superintendent's severance benefit was changed from 30 to 35 days times daily rate of pay at retirement which is payable as a lump sum to a VEBA/HRA account.
- Per a memorandum of understanding, the Community Education Director received a lump sum payment of \$22,500 payable to a VEBA/HRA account during the fiscal year ending June 30, 2021.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Notes to the Required Supplementary Information**

**Post Employment Health Care Plan (Continued)**

**2020 Changes**

Assumption Changes

- The discount rate was changed from 3.10% to 2.40%.

**2019 Changes**

Assumption Changes

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.40% to 3.10%.

Plan Changes

- Two teachers who retired during June 2019 received a one-time contribution of \$15,000 to a VEBA/HRA account.
- Teachers who will retire by June 30, 2021, after attaining age 55 with 15 years of service (10 years with the District) will receive a one-time contribution of \$15,000 to a VEBA/HRA.

**2018 Changes**

None

**2017 Changes**

Assumption Changes

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2000 Combined Healthy Mortality Tables projected to 2014 with scale BB to the RP-2014 White Collar Mortality Tables (de-trended to 2006) and then projected beyond the valuation date using scale MP-2016.
- The discount rate was changed from 4.00% to 3.40%.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 also were updated.
- The percentage of future retirees who are assumed to continue on one of the District's medical plans post-employment was changed as follows:
  - The percentage was increased from 0% to 20% for Food Served employees and from 50% to 60% for the Superintendent.
  - The percentage was decreased from 25% to 20% for Paraprofessionals and from 65% to 60% for All Other employees.

Method Changes

- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

**SUPPLEMENTARY INFORMATION**

ISD No. 2687 - Howard-Lake-Winsted Public Schools  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
June 30, 2025

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
<b>Assets</b>			
Cash and investments	\$ 427,723	\$ 231,411	\$ 659,134
Current property taxes receivable	-	86,302	86,302
Delinquent property taxes receivable	-	1,351	1,351
Accounts receivable	259	6,576	6,835
Due from Department of Education	81,497	24,891	106,388
Due from other Minnesota school districts	160	3,945	4,105
Due from Federal Government through Department of Education	54,870	-	54,870
Inventory	18,909	-	18,909
Prepaid items	3,485	-	3,485
<b>Total assets</b>	<b>\$ 586,903</b>	<b>\$ 354,476</b>	<b>\$ 941,379</b>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 3,641	\$ 3,641
Salaries and benefits payable	17,604	75,073	92,677
Unearned revenue	24,681	18,179	42,860
<b>Total liabilities</b>	<b>42,285</b>	<b>96,893</b>	<b>139,178</b>
<b>Deferred Inflows of Resources</b>			
Property taxes levied for subsequent year's expenditures	-	180,148	180,148
Unavailable revenue - delinquent taxes	-	1,351	1,351
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>181,499</b>	<b>181,499</b>
<b>Fund Balances</b>			
Nonspendable	22,394	-	22,394
Restricted	522,224	76,084	598,308
Unassigned	-	-	-
<b>Total fund balances</b>	<b>544,618</b>	<b>76,084</b>	<b>620,702</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 586,903</b>	<b>\$ 354,476</b>	<b>\$ 941,379</b>

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools**  
**Combining Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2025**

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
<b>Revenues</b>			
Local property taxes	\$ -	\$ 122,624	\$ 122,624
Other local and county revenues	9,294	749,202	758,496
Revenue from state sources	681,589	251,825	933,414
Revenue from federal sources	523,198	-	523,198
Sales and other conversion of assets	189,798	-	189,798
Total revenues	1,403,879	1,123,651	2,527,530
<b>Expenditures</b>			
Current			
Food service	1,259,535	-	1,259,535
Community education and services	-	1,022,731	1,022,731
Capital outlay			
Food service	75,924	-	75,924
Total expenditures	1,335,459	1,022,731	2,358,190
Excess of revenues over (under) expenditures	68,420	100,920	169,340
<b>Fund Balances</b>			
Beginning of year	476,198	(24,836)	451,362
End of year	\$ 544,618	\$ 76,084	\$ 620,702

ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Uniform Financial Accounting and Reporting Standards  
Compliance Table  
Year Ended June 30, 2025

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total revenue	\$ 19,852,835	\$ 19,852,839	\$ (4)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	18,744,897	18,744,893	4	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	162,123	162,123	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	115,047	115,047	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.13 Project Funded by COP/LP	-	-	-
4.03 Staff Development	-	-	-	4.67 LTFM	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Programs	-	-	-	4.64 Restricted fund balance	-	-	-
4.08 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
4.12 Literacy Incentive Aid	-	-	-	4.63 Unassigned fund balance	-	-	-
4.13 Building Projects Funded by COP/LP	-	-	-				
4.14 Operating Debt	-	-	-	<b>07 DEBT SERVICE FUND</b>			
4.16 Levy Reduction	-	-	-	Total revenue	\$ 3,150,492	\$ 3,150,492	\$ -
4.17 Taconite Building Maintenance	-	-	-	Total expenditures	3,141,247	3,141,247	-
4.20 American Indian Education Aid	-	-	-	<i>Nonspendable:</i>			
4.24 Operating Capital	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.26 \$25 Taconite	-	-	-	<i>Restricted/reserved:</i>			
4.27 Disabled Accessibility	-	-	-	4.25 Bond refundings	-	-	-
4.28 Learning and Development	-	-	-	4.33 Maximum effort loan aid	-	-	-
4.34 Area Learning Center	-	-	-	4.67 LTFM	-	-	-
4.35 Contracted Alternative Programs	-	-	-	4.51 QZAB payments	-	-	-
4.36 State Approved Alternative Learning Program	-	-	-	<i>Restricted:</i>			
4.37 Quality Compensation - Alternative Teacher Professional Pay System	(3,898)	(3,898)	-	4.64 Restricted fund balance	653,062	653,061	1
4.38 Gifted and Talented	-	-	-	<i>Unassigned:</i>			
4.39 English Learner	-	-	-	4.63 Unassigned fund balance	-	-	-
4.40 Teacher Development and Evaluation	-	-	-				
4.41 Basic Skills Programs	-	-	-	<b>08 TRUST FUND</b>			
4.43 School Library Aid	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.45 Career Technical Programs	-	-	-	Total expenditures	-	-	-
4.46 First Grade Preparedness	-	-	-	<i>Unassigned:</i>			
4.48 Achievement and Integration Revenue	-	-	-	4.01 Student Activities	-	-	-
4.49 Safe Schools Revenue	-	-	-	4.02 Scholarships	-	-	-
4.51 QZAB Payments	-	-	-	4.22 Net position	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-				
4.53 Unfunded Severance and	-	-	-	<b>18 CUSTODIAL</b>			
4.56 Literacy Aid	50,707	50,707	-	Total revenue	-	-	-
4.57 Teacher Compensation for Read Act Training	16,975	16,975	-	Total expenditures	-	-	-
4.59 Basic Skills Extended Time	-	-	-	<i>Restricted/Reserved:</i>			
4.67 Long-term Facilities Maintenance	68,027	68,027	-	4.01 Student Activities	-	-	-
4.71 Student Support Personnel Aid	-	-	-	4.02 Scholarships	-	-	-
4.72 Medical Assistance	-	-	-	4.48 Achievement and Intergration	-	-	-
4.75 Title VII - Impact Aid	-	-	-	4.64 Restricted	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-				
<i>Restricted:</i>				<b>20 INTERNAL SERVICE FUND</b>			
4.64 Restricted fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Committed:</i>				Total expenditures	-	-	-
4.18 Committed for separation	-	-	-	<i>Unassigned:</i>			
4.61 Committed fund balance	-	-	-	4.22 Net position	-	-	-
<i>Assigned:</i>							
4.62 Assigned fund balance	3,271	3,271	-	<b>25 OPEB REVOCABLE TRUST</b>			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
4.22 Unassigned fund balance	1,686,815	1,686,819	(4)	Total expenditures	-	-	-
				<i>Unassigned:</i>			
				4.22 Net position	-	-	-
<b>02 FOOD SERVICE FUND</b>							
Total revenue	\$ 1,403,879	\$ 1,403,878	\$ 1	<b>45 OPEB IRREVOCABLE TRUST</b>			
Total expenditures	1,335,459	1,335,456	3	Total revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total expenditures	-	-	-
4.60 Nonspendable fund balance	22,394	22,393	1	<i>Unassigned:</i>			
<i>Restricted/reserved:</i>				4.22 Net position	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>				<b>47 OPEB DEBT SERVICE</b>			
4.64 Restricted fund balance	522,224	522,226	(2)	Total revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total expenditures	-	-	-
4.63 Unassigned fund balance	-	-	-	<i>Nonspendable:</i>			
				4.60 Nonspendable fund balance	-	-	-
<b>04 COMMUNITY SERVICE FUND</b>				<i>Restricted:</i>			
Total revenue	\$ 1,123,651	\$ 1,123,652	\$ (1)	4.25 Bond refundings	-	-	-
Total expenditures	1,022,731	1,022,732	(1)	4.64 Restricted fund balance	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
4.60 Nonspendable fund balance	-	-	-	4.63 Unassigned fund balance	-	-	-
<i>Restricted/reserved:</i>							
4.26 \$25 Taconite	-	-	-				
4.31 Community Education	52,616	52,616	-				
4.32 ECFE	-	-	-				
4.40 Teacher Development and Evaluations	-	-	-				
4.44 School Readiness	-	-	-				
4.47 Adult Basic Education	-	1	(1)				
4.52 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
4.64 Restricted fund balance	23,468	23,467	1				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				



**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit  
of Basic Financial Statements Performed in Accordance  
with *Government Auditing Standards***

**Independent Auditor's Report**

To the School Board  
ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Howard Lake-Waverly-Winsted, Minnesota

We have audited, in accordance with the 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 (*Government Auditing Standards*), 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 ending June 30, 2025, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 3, 2025.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the basic financial statements, 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.

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 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control as Audit Finding 2025-001 to be a material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**District's Response to the Finding**

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control. The District's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BerganKDV, Ltd.

St. Cloud, Minnesota  
November 3, 2025

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Schedule of Findings on Internal Control**

**Audit Finding 2025-001**

*Criteria:*

Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements requires adequate segregation of accounting duties.

*Condition:*

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. We recommend segregation or independent review be implemented whenever practical and cost effective.

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 provider is responsible for all aspects of the payroll process. However, each payroll is reviewed by the Business Manager.

*Context:*

This finding impacts the internal control for all significant accounting functions.

*Cause:*

There are a limited number of office employees.

*Effect or Potential Effect:*

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the basic financial statements.

**ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Schedule of Findings on Internal Control**

**Audit Finding 2025-001 (Continued)**

*Recommendation:*

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

*Views of the Responsible Officials and Planned Corrective Actions:*

**CORRECTIVE ACTION PLAN (CAP)**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District will continue to review its accounting duties and implement changes when possible, to improve segregation of duties.
3. Official Responsible for Ensuring CAP  
Dan Edwards, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2024.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.



## Minnesota Legal Compliance

### Independent Auditor's Report

To the School Board  
ISD No. 2687 - Howard Lake-Waverly-Winsted Public Schools  
Howard Lake-Waverly-Winsted, Minnesota

We have audited, 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, 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, and the related notes to basic financial statements, and have issued our report thereon dated November 3, 2025.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting - bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for Minnesota school districts (UFARS) sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, insofar as they relate to accounting matters. However, our audit as not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*BerganKDV, Ltd.*

St. Cloud, Minnesota  
November 3, 2025