PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 12, 2026

In the opinion of Kennedy & Graven, Chartered, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions (which exclude any pending legislation which may have a retroactive effect) and, assuming the accuracy of certain representations and continuing compliance with certain covenants set forth in the resolutions approving the issuance of the Bonds, interest to be paid on the Bonds is excludable from gross income for federal income tax purposes and, to the same extent, is excludable from taxable net income of individuals, trusts, and estates for Minnesota income tax purposes, and is not a preference item for purposes of computing the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on individuals, trusts, and estates. However, such interest is included in determining the adjusted financial statement income of applicable corporations for purposes of computing the alternative minimum tax imposed on such applicable corporations and is subject to Minnesota franchise taxes on certain corporations (including financial institutions) measured by income. No opinion will be expressed by Bond Counsel regarding the other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds. See "TAX EXEMPTION" herein.

The District will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue **Rating Application Made: S&P Global Ratings**

INDEPENDENT SCHOOL DISTRICT NO. 390 (LAKE OF THE WOODS SCHOOL), MINNESOTA

(Lake of the Woods County)

(Minnesota School District Credit Enhancement Program)

$5,000,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2026A

PROPOSAL OPENING: February 23, 2026, 9:30 A.M., C.T. **CONSIDERATION**: February 23, 2026, 7:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $5,000,000* General Obligation School Building Bonds, Series 2026A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and a special election held November 4, 2025, by Independent School District No. 390 (Lake of the Woods School), Minnesota (the "District"), for the purpose of financing the acquisition and betterment of school sites and facilities in the District. The Bonds will be general obligations of the District for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Kennedy & Graven, Chartered, Minneapolis, Minnesota.

DATE OF BONDS: March 19, 2026

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2027	$135,000	2032	$200,000	2037	$575,000
2028	300,000	2033	210,000	2038	570,000
2029	160,000	2034	395,000	2039	590,000
2030	185,000	2035	410,000	2040	615,000
2031	190,000	2036	465,000		

***MATURITY ADJUSTMENTS:** The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: February 1, 2027 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2035 and thereafter are subject to call for prior optional redemption on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

MINIMUM PROPOSAL: $5,000,000.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of $100,000 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation.

BOND COUNSEL: Kennedy & Graven, Chartered.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Underwriter (Syndicate Manager). Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the District and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the District, is contingent upon the delivery of the Bonds.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over $1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the District for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers and Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the Underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over $1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the District is required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the Underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the District nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the District which indicates that the District does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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LAKE OF THE WOODS SCHOOL
SCHOOL BOARD

		Term Expires
Jerem Haack	Board Chair	January 2029
Craig Severs	Vice Chair	January 2027
Kayla Johnson	Clerk	January 2027
Robyn Sonstegard	Treasurer	January 2029
Nate Hayes	Member	January 2029
Boyd Johnson	Member	January 2029

ADMINISTRATION

Scott Fitzsimonds, Superintendent of Schools

Shena Brandt, Business Manager

PROFESSIONAL SERVICES

Pemberton Law, Attorney to the District, Fergus Falls, Minnesota

Kennedy & Graven, Chartered, Bond Counsel, Minneapolis, Minnesota

Ehlers and Associates, Inc., Municipal Advisors, Minneapolis, Minnesota
(*Other office located in Waukesha, Wisconsin*)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 390 (Lake of the Woods School), Minnesota (the "District") and the issuance of its $5,000,000* General Obligation School Building Bonds, Series 2026A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the School Board on February 23, 2026.

Inquiries may be directed to Ehlers and Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Minneapolis, Minnesota, (651) 697-8500, the District's municipal advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of $5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of March 19, 2026. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2027, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2027 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The District has selected Bond Trust Services Corporation, Minneapolis, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2035 shall be subject to optional redemption prior to maturity on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the District. If only part of the Bonds having a common maturity date are called for redemption, then the District or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and a special election held November 4, 2025, by the District, at which voters approved a building program by a vote of 397- 289. Proceeds of the Bonds will be used to provide funds for the acquisition and betterment of school sites and facilities, including roof repairs, exterior masonry, window replacements, flooring repair, the construction of site safety and traffic flow improvements to the school site and facility; the completion of various deferred maintenance and infrastructure projects at that facility.

ESTIMATED SOURCES AND USES*

Sources		
Par Amount of Bonds	$5,000,000	
Reoffering Premium	276,610	
Total Sources		**$5,276,610**
Uses		
Total Underwriter's Discount (1.200%)	$60,000	
Costs of Issuance	86,915	
Deposit to Construction Fund	5,129,695	
Total Uses		**$5,276,610**

*Preliminary, subject to change.

SECURITY

The Bonds will be general obligations of the District to which its full faith and credit and taxing powers are pledged. In accordance with Minnesota Statutes, the District will levy each year an amount not less than 105% of the debt service requirements on the Bonds, less estimated collections of other revenues pledged for payments on the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the District is required to levy additional taxes upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

RATING

The District will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a credit enhanced rating from S&P Global Ratings ("S&P"). S&P has a policy which assigns a rating of "AAA" to issuers participating in the MNCEP. The "AAA" rating is based on the State of Minnesota's current "AAA"/Stable outlook rating from S&P. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS" for further details.

The District currently has an "A-"/Stable outlook rating from S&P and will be requesting an underlying rating on this issue. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the District nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on December 15, 2025 (the "Resolution"), the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, as amended, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation (herein referred to as the "State Payment Law" or the "Law"). The provisions of the State Payment Law shall be binding on the District as long as any obligations of the issue remain outstanding.

Under the State Payment Law, if the District believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Commissioner of Education as soon as possible, but not less than 15 working days prior to the due date (which notice is to specify certain information) that it intends to exercise the provisions of the Law to guarantee payment of the principal and interest when due. The District also covenants in the Resolution to deposit with the Paying Agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of the payment.

The Law also requires the Paying Agent for this issue to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal and interest on these obligations, or if, on the day two business days prior to the payment date, there are insufficient funds to make the payment or deposit with the Paying Agent.

The Law also requires, after receipt of a notice which requests a payment pursuant to the Law, after consultation with the Paying Agent and District, and after verifying the accuracy of the information provided, the Commissioner of Education shall notify the Commissioner of Management and Budget of the potential default. The State Payment Law provides that "upon receipt of this notice . . . the commissioner of management and budget shall issue a payment and authorize the commissioner of education to pay to the paying agent for the debt obligation the specified amount on or before the date due. The amounts needed for the purposes of this subdivision are annually appropriated to the [Department of Education] from the state general fund."

The Law requires that all amounts paid by the State on behalf of any school district are required to be repaid by the district to the State with interest, either via a reduction in State aid payable to the district, or through the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education.

In its Official Statement dated September 23, 2025, for General Obligation State Bonds, Series 2025A, 2025B, 2025C, 2025D and 2025E, the State of Minnesota disclosed the following information about the State Credit Enhancement Program for School Districts:

> "As of June 30, 2025, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2054, is approximately $19,610,000,000. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of June 30, 2025 is currently estimated at $3,155,000,000, with the maximum amount of principal and interest payable in any one month being $1,253,600,000. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.
>
> The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts."

CONTINUING DISCLOSURE

In order to assist brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the District shall agree to provide certain information to the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery of the Bonds, the District shall execute and deliver a Continuing Disclosure Certificate, under which the District will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the District are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

A failure by the District to comply with any Disclosure Undertaking will not constitute an event of default on the Bonds. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Prior continuing disclosure undertakings entered into by the District included language stating that an Annual Report including the District's audited financial statements and operating data would be filed "as soon as available."

Although the District did not provide financial statements "as soon as available", the Annual Reports were timely filed within the required twelve (12) month timeframe as provided for in each undertaking. Except to the extent the foregoing deficiencies are deemed to be material, the District believes it has complied in all material respects with its prior disclosure undertakings under the Rule in the last five years. The District has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the District.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Kennedy & Graven, Chartered, Minneapolis, Minnesota, Bond Counsel to the District ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

TAX EXEMPTION

On the date of issuance of the Bonds, Bond Counsel will render an opinion that, at the time of issuance and delivery of the Bonds to the original purchaser, based on present federal and State of Minnesota laws, regulations, rulings and decisions (which exclude any pending legislation which may have a retroactive effect), and assuming the accuracy of certain representations and continuing compliance with certain covenants set forth in the Award Resolution, interest on the Bonds is excludable from gross income for federal income tax purposes and, to the same extent, is excludable from the taxable net income of individuals, trusts, and estates for Minnesota income tax purposes, and is not a preference item for purposes of computing the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on individuals, trusts, and estates. However, interest on the Bonds is included in determining the annual adjusted financial statement income (as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the "Code")) of applicable corporations (as defined in Section 59(k) of the Code) for purposes of computing the alternative minimum tax imposed on such applicable corporations and is subject to Minnesota franchise taxes on certain corporations (including financial institutions) measured by income. Section 59(k) of the Code defines "applicable corporation" as any corporation (other than an S corporation), a regulated investment company, or a real estate investment trust which meets the average annual adjusted financial statement income test set forth in Section 59(k) of the Code in one or more taxable years. No opinion will be expressed by Bond Counsel regarding other federal or State of Minnesota tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds.

Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income (for federal tax purposes) and taxable net income (for State of Minnesota tax purposes) of the owners thereof. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to United States or State of Minnesota income taxation.

The Code imposes an alternative minimum tax with respect to individuals on alternative minimum taxable income.

The Code provides that in the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as "losses incurred" under Section 832(b)(5) shall be reduced by an amount equal to the applicable percentage of the interest on the Bonds that is received or accrued during the taxable year.

Interest on the Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code. Under certain circumstances, interest on the Bonds may be subject to the tax on "excess net passive income" of Subchapter S corporations imposed by Section 1375 of the Code.

The above is not a comprehensive list of all federal tax consequences which may arise from the receipt of interest on the Bonds. The receipt of interest on the Bonds may otherwise affect the federal or State income tax liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

Legislative proposals

Bond Counsel's opinion is given as of its date and Bond Counsel assumes no obligation to update, revise, or supplement such opinion to reflect any changes in facts or circumstances or any changes in law that may hereafter occur. Proposals are regularly introduced in both the United States House of Representatives and the United States Senate that, if enacted, could alter or affect the tax-exempt status on municipal bonds. For example, legislation has been proposed that would, among other things, limit the amount of exclusions (including tax-exempt interest) or deductions that certain higher-income taxpayers could use to reduce their tax liability. The likelihood of adoption of this or any other such legislative proposal relating to tax-exempt bonds cannot be reliably predicted. If enacted into law, current or future proposals may have a prospective or retroactive effect and could affect the value or marketability of tax-exempt bonds (including the Bonds). Prospective purchasers of the Bonds should consult their own tax advisors regarding the impact of any such change in law.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a municipal advisor. Ehlers makes no representation, warranty or guarantee regarding the accuracy or completeness of the information in this Preliminary Official Statement, and its assistance in preparing this Preliminary Official Statement should not be construed as a representation that it has independently verified such information.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

BTSC and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the District, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the District under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 2025, have been audited by Brady Martz, Grand Forks, North Dakota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

The following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the District, the ultimate payment of which rests in the District's ability to levy and collect sufficient taxes to pay debt service should other revenue (state aids) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the District in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the State of Minnesota (the "State") may affect the overall financial condition of the District, the taxable value of property within the District, and the ability of the District to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the District and to the Bonds. The District can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the District or the taxing authority of the District.

Ratings; Interest Rates: In the future, the District's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the District to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Levy Limits: Minnesota school district tax levies for most purposes are subject to statutory limitations. No limit, however, is placed on the debt service levy, and districts are required to levy 105% of actual principal and interest requirements to allow for delinquencies. School districts receive a basic revenue amount per pupil unit from aid and levy proceeds in a variety of categorical state aids. They are also allowed to certify additional levies within limits for certain specified purposes. The State Department of Education and the applicable County Auditors review the levies of each school district to determine compliance with state levy limits.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the District to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the District, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the District may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

Cybersecurity: The District is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the District will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Preliminary Official Statement and the Appendices hereto.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2022/23	2023/24	2024/25
Residential homestead[1]	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%
Agricultural homestead[1]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $1,890,000 - 0.50% [2] Over $1,890,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,150,000 - 0.50% [2] Over $2,150,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $3,500,000 - 0.50% [2] Over $3,500,000 - 1.00% [2]
Agricultural non-homestead	Land - 1.00% [2]	Land - 1.00% [2]	Land - 1.00% [2]
Seasonal recreational residential	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]
Residential non-homestead:	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City[4] - 1.25% Affordable Rental: First $174,000 - 0.75% Over $174,000 - 0.25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $100,000 - 0.75% Over $100,000 - 0.25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental – 0.25%
Industrial/Commercial/Utility[5]	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%

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1 A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

2 Applies to land and buildings. Exempt from referendum market value tax.

3 Exempt from referendum market value tax.

4 Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

5 The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2024/25 Economic Market Value	$911,057,552[1]
2024/25 Assessor's Estimated Market Value	
Real Estate	$810,145,500
Personal Property	1,920,100
Total Valuation	$812,065,600
2024/25 Net Tax Capacity	
Real Estate	$8,065,673
Personal Property	29,601
Net Tax Capacity	$8,095,274
Less:	
Captured Tax Increment Tax Capacity[2]	(45,945)
Taxable Net Tax Capacity	$8,049,329

2024/25 NET TAX CAPACITY BY CLASSIFICATION

	2024/25 Net Tax Capacity	**Percent of Total Net Tax Capacity**
Residential homestead	$1,824,663	22.54%
Agricultural	1,946,903	24.05%
Commercial/industrial	781,684	9.66%
Public utility	82,468	1.02%
Railroad operating property	709,288	8.76%
Non-homestead residential	423,728	5.23%
Commercial & residential seasonal/rec.	2,296,939	28.37%
Personal property	29,601	0.37%
Total	$8,095,274	100.00%

1 According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the District was about 89.22% of the actual selling prices of property sold in the District. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the District of $911,057,552.

2 The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts in the District.

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Taxable Net Tax Capacity[2]	Percent Increase/Decrease in Estimated Market Value
2020/21	$582,249,400	$552,256,357	$5,908,523	$5,876,061	5.14%
2021/22	602,247,400	571,511,387	6,115,085	6,080,093	3.43%
2022/23	728,783,400	696,983,443	7,725,453	7,688,502	21.01%
2023/24	789,170,000	757,186,381	7,972,577	7,927,324	8.29%
2024/25	812,065,600	772,389,962	8,095,274	8,049,329	2.90%

LARGEST TAXPAYERS

Taxpayer	Type of Property	2024/25 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Canadian National Railway	Railroad	$709,732	8.77%
Zaitz Trust, LLP	Agricultural	113,010	1.40%
Minnkota Power Coop., Inc.	Utility	87,032	1.08%
J&L Hennum Inc. A MN Corp.	Commercial	74,134	0.92%
Robert Bosch Corp.	Commercial	53,766	0.66%
Lakewood Farms, Inc.	Agricultural	45,648	0.56%
Adrians Report, Inc.	Commercial/Residential	40,434	0.50%
ANIP Acquisition Company	Industrial	40,425	0.50%
S&J Real Estate, LLC	Seasonal Rec	38,204	0.47%
MLK Holding Company, Inc.	Seasonal Rec	37,588	0.46%
Total		$1,239,973	15.32%

District's Total 2024/25 Net Tax Capacity $8,095,274

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Largest Taxpayers have been furnished by Lake of the Woods County.

1 Net Tax Capacity includes tax increment values.

2 Taxable Net Tax Capacity does not include tax increment values.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedule following)

Total G.O. debt secured by taxes and state aids[2] (includes the Bonds)*	$13,510,000

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

The District has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The District has no current plans for additional financing in the next 12 months.

STATE AID FOR DEBT SERVICE

The Minnesota Debt Service Equalization program provides State aid to finance a portion of the principal and interest payments on voter approved school building bonds. Bonds and Certificates that are not eligible for the program include all alternative facilities bonds, facilities maintenance bonds, capital facilities bonds, OPEB bonds, building bonds with relatively short maturities, and Certificates of Participation (COPs).

Under the Debt Service Equalization Formula (the Formula) adopted by the 2001 Minnesota State Legislature, each school district is responsible for the amount of its qualifying annual debt service which is equal to 15.74% of its Adjusted Net Tax Capacity (ANTC). The District does not currently qualify for debt service equalization aid.

In addition to debt service equalization aid, some school districts will qualify for State Long Term Facilities Maintenance Aid to finance a portion of the payments on Alternative Facilities Bonds and Facilities Maintenance Bonds, pursuant to the Long Term Facilities Maintenance Revenue program approved by the State in 2015. If any aid is received, it is deposited into the school district's debt service fund and must be used for payments on the bonds; any payment of State aid into the debt service fund causes a reduction in the tax levy for Alternative Facilities Bonds and Facilities Maintenance Bonds. The amount of aid received in the debt service fund will vary each year, depending on a number of factors. The District does not currently qualify for Long Term Facilities Maintenance Aid in the debt service fund.

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1 Outstanding debt is as of the dated date of the Bonds.

2 Based upon the agricultural land valuation and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

Some school districts will also receive aid for debt service payments through the State School Building Bond Agricultural Credit, which is paid to school districts to offset a portion of certain bond levies (Minnesota Statutes, Section 273.1387). The reimbursement percentage for each qualifying property is 70% of the property's eligible net tax capacity multiplied by the school debt tax rate determined under Minnesota Statutes, Section 275.08, subdivision 1b. The school building bond agricultural credit applies to farmland, excluding the house, garage and one acre, and to rural vacant land and managed forest land. The amount of agricultural credit received in the debt service fund for taxes payable 2025 is approximately 15.32% of total annual debt service levies, based on the District's 2024/25 qualifying agricultural land valuation.

BONDED DEBT LIMIT

Minnesota Statutes, Section 475.53, subdivision 4, presently limits the "net debt" of a school district to 15% of the estimated market value of all taxable property situated within its corporate limits. The estimated market value of property within a district, on which its debt limit is based, is (a) the value certified by the county auditors, or (b) this value divided by the ratio certified by the commissioner of revenue, whichever results in a higher value. The current debt limit of the District is computed as follows:

2024/25 Economic Market Value	$911,057,552
Multiply by 15%	0.15
Statutory Debt Limit	$136,658,633
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(13,510,000)
Unused Debt Limit*	$123,148,633

*Preliminary, subject to change.

Independent School District No. 390 (Lake of the Woods School), Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 03/19/2026)

	Facilities Maint & School Bldg Ref Bonds Series 2016A		School Building Refunding Bonds Series 2021A		School Building Bonds Series 2026A							
Dated	06/15/2016		11/18/2021		03/19/2026							
Amount	$1,200,000		$10,935,000		$5,000,000*							
Maturity	02/01		02/01		02/01							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2027	135,000	2,700	675,000	240,500	135,000	196,300	945,000	439,500	1,384,500	12,565,000	6.99%	**2027**
2028			800,000	213,500	300,000	219,750	1,100,000	433,250	1,533,250	11,465,000	15.14%	**2028**
2029			835,000	181,500	160,000	204,750	995,000	386,250	1,381,250	10,470,000	22.50%	**2029**
2030			865,000	148,100	185,000	196,750	1,050,000	344,850	1,394,850	9,420,000	30.27%	**2030**
2031			895,000	122,150	190,000	187,500	1,085,000	309,650	1,394,650	8,335,000	38.30%	**2031**
2032			920,000	95,300	200,000	178,000	1,120,000	273,300	1,393,300	7,215,000	46.60%	**2032**
2033			950,000	67,700	210,000	168,000	1,160,000	235,700	1,395,700	6,055,000	55.18%	**2033**
2034			795,000	48,700	395,000	157,500	1,190,000	206,200	1,396,200	4,865,000	63.99%	**2034**
2035			815,000	32,800	410,000	137,750	1,225,000	170,550	1,395,550	3,640,000	73.06%	**2035**
2036			825,000	16,500	465,000	117,250	1,290,000	133,750	1,423,750	2,350,000	82.61%	**2036**
2037					575,000	94,000	575,000	94,000	669,000	1,775,000	86.86%	**2037**
2038					570,000	71,000	570,000	71,000	641,000	1,205,000	91.08%	**2038**
2039					590,000	48,200	590,000	48,200	638,200	615,000	95.45%	**2039**
2040					615,000	24,600	615,000	24,600	639,600	0	100.00%	**2040**
	135,000	2,700	8,375,000	1,166,750	5,000,000	2,001,350	13,510,000	3,170,800	16,680,800			

* Preliminary, subject to change.

OVERLAPPING DEBT[1]

Taxing District	2024/25 Taxable Net Tax Capacity	% In District	Total G.O. Debt[2]	District's Proportionate Share
Cities of:				
Baudette	$1,201,932	100.0000%	$616,859	$616,859
Williams	126,610	100.0000%	240,000	240,000
District's Share of Total Overlapping Debt				$856,859

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value $911,057,552	Debt/ Per Capita 3,382[3]
Direct G.O. Debt Paid from Taxes and State Aids*	$13,510,000		
Less: Agricultural Credit[4]	(2,069,732)		
Tax Supported General Obligation Debt*	$11,440,268	1.26%	$3,382.69
District's Share of Total Overlapping Debt	$856,859	0.09%	$253.36
Total*	$12,297,127	1.35%	$3,636.05

*Preliminary, subject to change.

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1 Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does ***not*** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

2 Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

3 Estimated 2024 population.

4 Based on current State law and statistics, the State of Minnesota is estimated to pay approximately 15.32% of the principal and interest of the District's general obligation bonds. Assuming this percentage continues for the life of the issue, the State's proportionate share of principal is $2,069,732.

TAX LEVIES, COLLECTION AND RATES

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date	% Collected
2020/21	$1,813,902	$1,782,026	$1,812,453	99.92%
2021/22	1,832,438	1,791,698	1,827,523	99.73%
2022/23	1,967,714	1,923,410	1,955,647	99.39%
2023/24	1,866,845	1,822,038	1,822,038	97.60%
2024/25	1,842,180	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.[2] Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES[3]

	2020/21	2021/22	2022/23	2023/24	20224/25
I.S.D. No. 390 (Lake of the Woods School)	26.512%	26.835%	24.181%	20.853%	20.237%
Lake of the Woods County	40.785%	41.325%	36.102%	34.603%	35.888%
City of Baudette	50.006%	53.411%	50.601%	50.222%	60.942%
City of Williams	84.736%	77.311%	78.523%	73.291%	72.247%
HRA	1.252%	1.155%	1.275%	1.134%	1.541%
HRDC	0.313%	0.319%	0.273%	0.233%	0.228%
Referendum Market Value Rates:					
I.S.D. No. 390 (Lake of the Woods School)	0.13886%	0.12044%	0.10726%	0.10389%	0.10639%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Lake of the Woods County.

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1 This reflects the Final Levy Certification of the District after all adjustments have been made.

2 Second half tax payments on agricultural property are due on November 15th of each year.

3 After reduction for State aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 72, including 36 non-licensed employees and 36 licensed employees (34 of whom are teachers). The District provides education for 420 students in grades kindergarten through twelve.

PENSIONS; UNIONS

Teachers' Retirement Association (TRA)

All teachers employed by the District are covered by defined benefit pension plans administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356, as amended.

Public Employees' Retirement Association (PERA)

All full-time and certain part-time employees of the District (other than those covered by TRA) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356, as amended.

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
MSEA	June 30, 2027
MEA	June 30, 2027
AFSCME	June 30, 2027

POST EMPLOYMENT BENEFITS

The District has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 75 (GASB 75). The District's most recent Audited Financial Statements(Audit) shows a total OPEB liability of $851,523 as of June 30, 2025. The District has been funding these obligations on a pay-as-you-go basis.

Source: The District's most recent Audit.

STUDENT BODY

The number of students enrolled for the past four years and for the current year have been as follows:

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2021/22	35	189	215	439
2022/23	39	199	191	429
2023/24	23	201	201	425
2024/25	35	199	190	424
2025/26	35	201	184	420

Enrollments for the next three years are projected to be as follows:

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2026/27	27	198	193	418
2027/28	34	201	192	427
2028/29	28	195	206	429

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Lake of the Woods Elementary/Secondary	1992	1997
Lake of the Woods Bus & Maintenance Garage	2002	--

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the District or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

Currently there is no statutory authority for Minnesota school districts to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code.

Nevertheless, there can be no assurance (a) that State law will not change in the future while the Bonds are outstanding; or (b) even absent such a change in State law, that an executive order or other executive action could not effectively authorize the District to file for relief under Chapter 9; or (c) whether it would still be eligible for voluntary or involuntary relief under Chapters of the Bankruptcy Code other than Chapter 9 or under similar federal or state law or equitable proceeding regarding insolvency or providing for protection from creditors. Such action could impact the rights of holders of the Bonds. Such modifications could be adverse to holders of the Bonds and there could ultimately be no assurance that holders of the Bonds would be paid in full or in part on the Bonds.

FUNDS ON HAND (as of December 31, 2025)

Fund	Total Cash and Investments
General	$15,423,375
Food Service	873,184
Community Service	328,883
Debt Service	1,539,349
Total Funds on Hand	$18,164,791

BUDGET SUMMARY

Fund	June 30, 2025 Actual Fund Balance	2025-26 Projected Revenues and Transfers In	2025-26 Projected Expenditures and Transfers Out	2025-26 Revenues over (under) expenditures	June 30, 2026 Projected Fund Balance
General	$15,436,895	$7,463,888	$7,218,894	$244,994	$15,681,889
Food Service	924,896	358,350	377,833	(19,483)	905,413
Community Service	482,913	345,893	410,228	(64,335)	418,578
Debt Service	2,423,605	1,104,708	1,051,700	53,008	2,476,613
Total All Funds	$19,268,309	$9,272,839	$9,058,655	$214,184	$19,482,493

SUMMARY GENERAL FUND INFORMATION

The following are summaries of the revenues, expenditures and fund balances for the District's General Fund. These summaries are not purported to be the complete audited financial statements of the District, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the District. Copies of the complete statements are available upon request. Appendix A includes the District's 2025 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING JUNE 30				
	2021 Audited	2022 Audited	2023 Audited	2024 Audited	2025 Audited
Revenues					
Local property tax levies	$867,851	$826,580	$1,402,265	$1,593,072	$1,492,730
Other local and county revenues	939,555	962,905	199,159	300,575	189,911
Revenues from state sources	5,208,732	4,503,072	4,773,856	5,430,341	5,612,242
Revenues from federal sources	381,620	790,681	448,703	199,768	166,727
Investment earnings	0	4,877	44,874	0	0
Sales and other conversion of assets	0	0	230	0	0
Total Revenues	$7,397,758	$7,088,115	$6,869,087	$7,523,756	$7,461,610
Expenditures					
Current:					
Administration	$325,612	$360,744	$385,871	$397,270	$309,134
District support services	381,987	549,303	628,402	539,995	410,881
Elementary & secondary regular instruction	3,026,984	3,323,741	3,457,112	3,219,248	3,282,979
Vocational education instruction	58,450	61,287	53,092	73,518	72,704
Special education instruction	691,115	714,948	648,635	760,378	631,748
Instructional support services	73,942	118,032	140,472	139,739	130,627
Pupil support services	589,598	711,666	886,723	780,004	735,395
Sites and buildings	938,774	774,901	985,014	927,071	877,603
Fixed costs	62,738	68,051	77,282	90,433	91,542
Debt service	0	64,074	20,082	91,030	64,026
Capital outlay	243,802	598,845	392,836	443,601	42,542
Total Expenditures	$6,393,002	$7,345,592	$7,675,521	$7,462,287	$6,649,181
Excess of revenues over (under) expenditures	$1,004,756	($257,477)	($806,434)	$61,469	$812,429
Other Financing Sources (Uses)					
Insurance Recovery	$0	$0	$55,398	$50,000	$0
Debt issued	0	0	0	177,791	0
Leases	0	6,878	0	0	0
Transfers in (out)	(211,319)	(288,278)	(445,986)	(445,986)	(166,647)
Total Other Financing Sources (Uses)	($211,319)	($281,400)	($390,588)	($218,195)	($166,647)
Net changes in Fund Balances	$793,437	($538,877)	($1,197,022)	($156,726)	$645,782
General Fund Balance July 1	$1,875,556	$2,668,993	$2,130,116	$837,048	$680,322
Prior Period Adjustment	0	0	(96,045)	0	0
General Fund Balance June 30	$2,668,993	$2,130,116	$837,049	$680,322	$1,326,104
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	$36,906	$27,680	$18,454	$9,226	$9,226
Restricted	635,250	821,597	748,378	655,922	808,788
Committed	170,000	170,000	170,000	170,000	170,000
Assigned	28,579	28,579	31,772	22,699	27,821
Unassigned	1,798,258	1,082,260	(131,555)	(177,525)	310,269
Total	$2,668,993	$2,130,116	$837,049	$680,322	$1,326,104

GENERAL INFORMATION

LOCATION

The District, with a 2020 U.S. Census population of 3,385, and a 2024 population estimate of 3,382, and comprising an area of 1,147 square miles, is located approximately 355 miles northwest of St. Paul, Minnesota, and two miles south of the U.S.-Canadian border. The City of Baudette, Minnesota, which is located within the District, is the county seat of Lake of the Woods County.

LARGER EMPLOYERS[1]

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Lakewood Health Center	Hospital	150
ANI Pharmaceuticals, Inc.	Pharmaceutical company	95
Lake of the Woods County	County government and services	81
Sportsman's Lodge	Resort	75
I.S.D. No. 390 (Lake of the Woods School)	Elementary and secondary education	72
Northdale Oil Inc Co-op Service Inc	Cooperative	70[2]
Ballard’s Resort	Resort	50
Lake of the Woods Foods	Grocery store	50
City of Baudette	Municipal government and services	35
Cyrus Resort	Resort	30

Source: Data Axle Reference Solutions, written and telephone survey, and the Minnesota Department of Employment and Economic Development.

[1] This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above.

[2] Includes food options, corn & chicken feed, Napa auto parts, convenience store, and a country store that are located in the same complex.

U.S. CENSUS DATA

Population Trend: The District

2010 U.S. Census population	3,668
2020 U.S. Census population	3,385
Percent of Change 2010 - 2020	-7.72%
2024 State Demographer Estimate	3,382

Income and Age Statistics

	The District	Lake of the Woods County	State of Minnesota	United States
2024 per capita income	$40,790	$39,814	$48,237	$44,673
2024 median household income	$71,250	$70,091	$89,062	$80,734
2024 median family income	$90,714	$89,208	$113,993	$99,999
2024 median gross rent	$873	$867	$1,280	$1,413
2024 median value owner occupied units	$218,500	$215,000	$329,300	$332,700
2024 median age	53.1 yrs.	50.8 yrs.	38.8 yrs.	38.7 yrs.

	State of Minnesota	United States
District % of 2024 per capita income	84.56%	91.31%
District % of 2024 median family income	79.58%	90.71%

Source: 2010 and 2020 Census of Population and Housing, and 2023 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (https://data.census.gov) and Minnesota State Demographer (https://mn.gov/admin/demography/data-by-place/school-district-data.jsp).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

	Average Employment	Average Unemployment	
Year	Lake of the Woods County	Lake of the Woods County	State of Minnesota
2021	1,941	4.5%	3.7%
2022	1,953	3.5%	2.5%
2023	1,921	4.0%	2.8%
2024	1,906	4.1%	3.0%
2025, December	1,851	5.9%	4.3%

Source: Minnesota Department of Employment and Economic Development.

APPENDIX A

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the District's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The District has not requested or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Preliminary Official Statement, nor has the District requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Preliminary Official Statement is not intended to demonstrate the fiscal condition of the District since the date of the financial statements, in connection with the issuance of the Bonds, the District represents that there have been no material adverse change in the financial position or results of operations of the District, nor has the District incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2025

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TABLE OF CONTENTS *(CONTINUED)*

ROSTER OF SCHOOL OFFICIALS
June 30, 2025

Chairman	Boyd Johnson
Vice-Chairman	Robyn Sonstegard
Treasurer	Craig Severs
Clerk	Jerem Haack
Director	Nate Hayes
Director	Kayla Johnson
Superintendent (through June 30, 2025)	Jeff Nelson
Superintendent (effective July 1, 2025)	Scott Fitzsimonds

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District No. 390
Baudette, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 390, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 390 as of June 30, 2025, and the respective changes in financial position 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 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 the Independent School District No. 390, and to meet our 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 – Change in Accounting Principle

As described in Note 2 to the financial statements, the District has adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management 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 Independent School District No. 390'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 generally accepted auditing standards 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement 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 Independent School District No. 390'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Independent School District No. 390'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, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of District contributions, schedule of District's share of net pension liability, and notes to required supplementary information as listed in the table of contents as required supplementary information 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 the Governmental Accounting Standards Board 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 combining statements, schedule of changes in fund balances and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are 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 combining statements, schedule of changes in fund balances and compliance table are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the roster of school officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 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 the District's 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.

Brady Martz

BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

November 18, 2025

This section of Independent School District No. 390's annual financial report presents its 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.

Financial Highlights

The general fund balance increased $645,782 during t**he 2024-**2025 school year.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-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 district-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 general fund budget for the year, and supplementary information that is presented for additional analysis.

District-wide Statements

The district-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, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. 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.

The two district-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets, liabilities, and deferred inflows/outflows 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 are indicators of whether its financial position is improving or deteriorating, respectively.

- To assess the District's overall health, 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 district-wide financial statements, the District's activities are shown in one category:

- *Governmental activities*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. 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 (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has one kind of fund:

- Governmental funds: 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 you 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 district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to help explain the relationship (or differences) between the governmental funds and governmental activities.

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was $(4,299,770) on June 30, 2025 (see details in Table A-1). This was an increase of 21.5 percent from the prior year.

Table A-1
Statement of Net Position

	2025	2024	Total Percentage Change
Current and Other Assets	$ 4,513,784	$ 3,725,699	21.2 %
Capital Assets	9,128,608	9,711,083	(6.0)
Total Assets	13,642,392	13,436,782	1.5
Deferred Outflows of Resources	1,143,084	1,297,604	(11.9)
Long-Term Liabilities	13,497,411	16,073,115	(16.0)
Other Liabilities	1,914,346	1,477,111	29.6
Total Liabilities	15,411,757	17,550,226	(12.2)
Deferred Inflows of Resources	3,673,489	2,664,016	37.9
Net Position			
Net Investment in Capital Assets	(944,203)	(1,229,972)	23.2
Restricted	1,341,985	1,114,628	20.4
Unrestricted	(4,697,552)	(5,364,512)	12.4
Total Net Position	$ (4,299,770)	$ (5,479,856)	21.5 %

Change in Net Position

Table A-2 presents the change in net position of the District.

Table A-2
Change in Net Position

	2025	2024	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 154,863	$ 214,731	(27.9) %
Operating Grants and Contributions	2,032,371	1,935,796	5.0
Capital Grants and Contributions	197,073	206,194	(4.4)
General Revenues			
Property Taxes	2,455,280	2,494,428	(1.6)
Unrestricted State Aid	4,129,547	4,107,850	0.5
Other Sources	94,780	234,242	(59.5)
Total Revenues	9,063,914	9,193,241	(1.4)
Expenses			
Administration	309,134	397,270	(22.2)
District Support Services	445,042	644,407	(30.9)
Elementary & Secondary Regular Instruction	3,020,345	3,074,545	(1.8)
Vocational Education Instruction	72,704	73,518	(1.1)
Special Education Instruction	631,748	760,378	(16.9)
Community Education and Services	280,370	326,128	(14.0)
Instructional Support Services	145,572	154,684	(5.9)
Pupil Support Services	1,150,277	1,293,940	(11.1)
Sites and Buildings	1,367,323	1,414,161	(3.3)
Fixed Costs	91,542	90,433	1.2
Interest on Long-Term Debt	233,940	261,677	(10.6)
Total Expenses	7,747,997	8,491,141	(8.8)
Change in Net Position	1,315,917	702,100	87.4
Net Position - Beginning	(5,479,856)	(6,181,956)	
GASB 101 Adjustment - See Note 2	(135,831)		
Net Position - Beginning	(5,615,687)	(6,181,956)	9.2
Net Position - Ending	$ (4,299,770)	$ (5,479,856)	21.5 %

The District’s total revenues were $9,063,914 for the year ended June 30, 2025. Property taxes and state aid payments accounted for 94 percent of total revenue for the year.

The total cost of all programs and services was $7,747,997. The District's expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net position by $1,315,917 over last year. For the year ended June 30, 2025, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by $185,707. For the year ended June 30, 2024, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by $276,288.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

Table A-3
Net Cost of Governmental Activities

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2025	2024		2025	2024	
Expenses						
Administration	$ 309,134	$ 397,270	(22.2) %	$ 309,134	$ 397,270	(22.2) %
District Support Services	445,042	644,407	(30.9)	445,042	626,469	(29.0)
Elementary & Secondary						
Regular Instruction	3,020,345	3,074,545	(1.8)	2,355,790	2,443,049	(3.6)
Vocational Education Instruction	72,704	73,518	(1.1)	72,704	73,518	(1.1)
Special Education Instruction	631,748	760,378	(16.9)	(1,631)	134,859	(101.2)
Community Education & Services	280,370	326,128	(14.0)	197,141	232,819	(15.3)
Instructional Support Services	145,572	154,684	(5.9)	(62,431)	22,835	(373.4)
Pupil Support Services	1,150,277	1,293,940	(11.1)	559,861	624,996	(10.4)
Sites and Buildings	1,367,323	1,414,161	(3.3)	1,162,598	1,226,495	(5.2)
Fixed Costs	91,542	90,433	1.2	91,542	90,433	1.2
Interest on Long-Term Debt	233,940	261,677	(10.6)	233,940	261,677	(10.6)
	$ 7,747,997	$ 8,491,141	(8.8) %	$ 5,363,690	$ 6,134,420	(12.6) %

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-4
Major Funds

	Fund Balance		Increase	Percentage Increase
	2025	2024	(Decrease)	(Decrease)
Governmental Funds				
General Fund	$ 1,326,104	$ 680,322	$ 645,782	94.9 %
Debt Service Fund	274,550	224,645	49,905	22.2

General Fund

The general fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

Table A-5 presents a summary of general fund revenue.

Table A-5
General Fund Revenue

	2025	2024	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 1,492,730	$ 1,593,072	$ (100,342)	(6.3) %
Interest Earnings	25,869	39,063	(13,194)	(33.8)
Other	164,042	261,512	(97,470)	(37.3)
State Sources	5,612,242	5,430,341	181,901	3.3
Federal Sources	166,727	199,768	(33,041)	(16.5)
Total General Fund Revenue	$ 7,461,610	$ 7,523,756	$ (62,146)	(0.8) %

Total general fund revenue decreased by $62,146 or 0.8 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

Table A-6 presents a summary of general fund expenditures.

Table A-6
General Fund Expenditures

	2025	2024	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 3,878,023	$ 4,168,420	$ (290,397)	(7.0) %
Employee Benefits	1,246,467	1,178,864	67,603	5.7
Purchased Services	1,052,045	1,154,767	(102,722)	(8.9)
Supplies and Materials	336,669	377,028	(40,359)	(10.7)
Debt Service	64,026	91,030	(27,004)	(29.7)
Capital Expenditures	42,542	443,601	(401,059)	(90.4)
Other Expenditures	29,409	48,577	(19,168)	(39.5)
Total General Fund Expenditures	$ 6,649,181	$ 7,462,287	$ (813,106)	(10.9) %

Total general fund expenditures decreased by $813,106 or 10.9 percent from the previous year.

General Fund Budgetary Highlights.

The District amended the budget during the year to reflect increased ADM's and state aid. The District's general fund final budget anticipated that revenues and other financing sources would exceed expenditures and other financing uses by $429,873, but the actual results for the year reported a $645,782 surplus.

Capital Assets and Debt Administration

Capital Assets

Note 4 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2025. Additions totaling $24,140 consisted of a bus. The District disposed of an equipment leased asset during the year.

Long-Term Debt

At year-end, the District had $10,485,812 of long-term debt. This consisted of bonded indebtedness of $9,290,000, unamortized premiums of $699,562, leases of $70,521, financed purchase of $12,728, and compensated absences of $413,001. Note 7 to the financial statements present details and payment provisions of these items.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the existing circumstances that could significantly affect its financial health in the future:

- The District has been experiencing a decrease in enrollment.
- Health insurance costs
- Uncertainty as to federal and state funding

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, 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 questions about this report or need additional financial information, contact the Administration Offices, Independent School District No. 390, 236 15th Avenue SW, Baudette, Minnesota 56623.

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2025

GOVERNMENTAL ACTIVITIES	
ASSETS	
Cash and Investments	$ 2,985,977
Property Taxes Receivable, Net of Allowance	1,014,189
Accounts Receivable	20,123
Due From Department of Education	424,513
Due From Federal Govt. - DOE	49,892
Due From Federal Govt.	
Prepaid Expenses	9,226
Inventory	9,864
Capital Assets	
Land, Construction in Process	90,064
Other Capital Assets, Net of Depreciation/Amortization	9,038,544
TOTAL ASSETS	13,642,392
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan	961,693
Other Postemployment Benefit	181,391
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,143,084
LIABILITIES	
Accounts Payable	38,845
Due to Other Districts	23,208
Salaries Payable	244,955
Payroll Deductions	305,225
Interest Payable	113,208
Unavailable Revenue	7,066
Long-Term Liabilities Due Within One Year	1,181,839
Long-Term Liabilities	
Bonds, Net Unamortized Discounts and Premiums	9,989,562
Lease Payable	70,521
Finance Purchase Payable	12,728
Compensated Absences	413,001
Net Other Postemployment Benefit Obligation	851,523
Net Pension Liability	3,341,915
Less Amounts Due Within One Year	(1,181,839)
Total Long-Term Liabilities	13,497,411
TOTAL LIABILITIES	15,411,757
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied - Subs. Years	2,018,007
Cost Sharing Defined Benefit Pension Plan	1,468,104
Other Postemployment Benefit	187,378
TOTAL DEFERRED INFLOWS OF RESOURCES	3,673,489
NET POSITION	
Net Investment in Capital Assets	(944,203)
Restricted for:	
Student Activities	71,817
Staff Development	28,852
Literacy Incentive	772
Indian Ed	5,526
Operating Capital	263,944
Learning and Development	283
Safe Schools	75,838
Literacy Aid	15,113
LTFM	291,245
FEMA	55,398
Debt Service	161,342
Food Service	167,260
Community Education	145,319
ECFE	57,893
Community Service	1,383
Unrestricted	(4,697,552)
TOTAL NET POSITION	$ (4,299,770)

See Notes to the Basic Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 309,134	$	$	$	$ (309,134)
District Support Services	445,042				(445,042)
Elementary & Secondary					
Regular Instruction	3,020,345	98,565	561,458	4,532	(2,355,790)
Vocational Education Instruction	72,704				(72,704)
Special Education Instruction	631,748		633,379		1,631
Community Education and Services	280,370	35,468	47,761		(197,141)
Instructional Support Services	145,572		208,003		62,431
Pupil Support Services	1,150,277	8,620	581,770	26	(559,861)
Sites and Buildings	1,367,323	12,210		192,515	(1,162,598)
Fixed Costs	91,542				(91,542)
Interest on Long-Term Debt	233,940				(233,940)
TOTAL GOVERNMENTAL ACTIVITIES	$ 7,747,997	$ 154,863	$ 2,032,371	$ 197,073	(5,363,690)

GENERAL REVENUES	
Taxes	
Property Taxes, Levied for General Purposes	1,483,139
Property Taxes, Levied for Community Education and Services	37,590
Property Taxes, Levied for Debt Services	934,551
Unrestricted State Aid	4,129,547
Unrestricted Investment Earnings	25,869
Other General Revenue	68,911
TOTAL GENERAL REVENUES	6,679,607
Change in Net Position	1,315,917
Net Position - Beginning	(5,479,856)
GASB 101 Adjustment - See Note 2	(135,831)
Net Position - Beginning, Restated	(5,615,687)
Net Position - Ending	$ (4,299,770)

See Notes to the Basic Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2025

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 1,935,976	$ 801,439	$ 248,562	$ 2,985,977
Current Property Taxes Receivable	392,328	568,912	20,577	981,817
Delinquent Property Taxes Receivable	7,267	24,010	1,095	32,372
Accounts Receivable	17,623		2,500	20,123
Due From Department of Education	393,493	17,547	13,473	424,513
Due From Federal Govt. - DOE	41,609		8,283	49,892
Prepaid Expenses	9,226			9,226
Inventory			9,864	9,864
TOTAL ASSETS	$ 2,797,522	$ 1,411,908	$ 304,354	$ 4,513,784
LIABILITIES				
Accounts Payable	$ 38,845	$	$	$ 38,845
Due to Other Districts	23,208			23,208
Salaries Payable	240,920		4,035	244,955
Payroll Deductions	305,225			305,225
Unavailable Revenue			7,066	7,066
TOTAL LIABILITIES	608,198		11,101	619,299
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	7,267	24,010	1,095	32,372
Property Taxes Levied - Subs. Years	855,953	1,113,348	48,706	2,018,007
TOTAL DEFERRED INFLOWS OF RESOURCES	863,220	1,137,358	49,801	2,050,379
FUND BALANCES				
Fund Balance:				
Nonspendable:	9,226			9,226
Nonspendable: Inventory			9,864	9,864
Restricted for Student Activities	71,817			71,817
Restricted for Staff Development	28,852			28,852
Restricted for Literacy Incentive	772			772
Restricted for Indian Ed	5,526			5,526
Restricted for Operating Capital	263,944			263,944
Restricted for Learning and Development	283			283
Restricted for Safe Schools	75,838			75,838
Restricted for Literacy Aid	15,113			15,113
Restricted for LTFM	291,245			291,245
Restricted for FEMA	55,398			55,398
Restricted for Debt Service		274,550		274,550
Restricted for Food Service			157,396	157,396
Restricted for Community Education			145,319	145,319
Restricted for ECFE			57,893	57,893
Restricted for Community Service			1,383	1,383
Committed for Severance	170,000			170,000
Assigned for Forest	27,821			27,821
Unassigned	310,269		(128,403)	181,866
TOTAL FUND BALANCES	1,326,104	274,550	243,452	1,844,106
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 2,797,522	$ 1,411,908	$ 304,354	$ 4,513,784

See Notes to the Basic Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2025

Total fund balances - governmental funds	$ 1,844,106
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	28,938,129
Less accumulated depreciation/amortization	(19,809,521)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemploytment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,143,084
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(9,290,000)
Lease payable	(70,521)
Finance payable	(12,728)
Unamortized discounts and premiums	(699,562)
Compensated Absences	(413,001)
Net other postemployment benefit obligation	(851,523)
Net pension liability	(3,341,915)
Deferred inflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(1,655,482)
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the governmental funds.	32,372
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(113,208)
Net position - governmental activities	$ (4,299,770)

See Notes to the Basic Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2025

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 1,492,730	$ 924,014	$ 37,051	$ 2,453,795
Other Local & County Revenues	189,911		51,112	241,023
Revenue From State Sources	5,612,242	175,466	244,269	6,031,977
Revenue From Federal Sources	166,727		169,121	335,848
Sale/Other Conversion of Asset			8,620	8,620
TOTAL REVENUES	7,461,610	1,099,480	510,173	9,071,263
EXPENDITURES				
Current				
Administration	309,134			309,134
District Support Services	410,881			410,881
Elementary & Secondary Regular Instruction	3,282,979			3,282,979
Vocational Education Instruction	72,704			72,704
Special Education Instruction	631,748			631,748
Community Education and Services			279,737	279,737
Instructional Support Services	130,627			130,627
Pupil Support Services	735,395		374,447	1,109,842
Sites and Buildings	877,603			877,603
Fixed Costs	91,542			91,542
Debt Service				
Principal	56,514	750,000		806,514
Interest and Fees	7,512	299,575		307,087
Capital Outlay	42,542			42,542
TOTAL EXPENDITURES	6,649,181	1,049,575	654,184	8,352,940
Revenues Over (Under) Expenditures	812,429	49,905	(144,011)	718,323
OTHER FINANCING SOURCES (USES)				
Transfers In			166,647	166,647
Transfers Out	(166,647)			(166,647)
TOTAL OTHER FINANCING SOURCES (USES)	(166,647)		166,647	
Net Change in Fund Balances	645,782	49,905	22,636	718,323
Fund Balances - Beginning	680,322	224,645	220,816	1,125,783
Fund Balances - Ending	$ 1,326,104	$ 274,550	$ 243,452	$ 1,844,106

See Notes to the Basic Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2025

Total net change in fund balances - governmental funds	$	718,323
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.		
Capital outlays		24,140
Depreciation/Amortization expense		(606,615)
Change in net pension liability		1,494,164
Changes in deferred outflows and inflows of resources related to net pension liability		(1,308,457)
Changes in deferred outflows and inflows of resources related to other postemployment benefit liability		145,712
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.		774,223
Payment of lease principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.		32,291
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 the 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. Also, governmental funds report the effect of premiums when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		73,147
Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.		
Revenue in the statement of activities that does not provide current financial resources is not reported as revenues in the governmental funds.		1,485
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)		
Compensated Absences		53,690
Other postemployment benefits		(86,186)
Change in net position - governmental activities	$	1,315,917

See Notes to the Basic Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 390 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separated entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

C. Basic Financial Statement Presentation

The district-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.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

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

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-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 or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift." Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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:

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 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 fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report are as follows:

Major Governmental Funds

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Nonmajor Governmental Funds

Special Revenue Funds – Accounts for proceeds of specific revenue sources (other than permanent fund and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and their purposes are as follows:

Food Service – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

Community Service – Accounts for the resources designated for programs other than those for elementary and secondary students.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

E. Specific Account Information

Cash and Investments – Cash and temporary 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 respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

Fair Value Measurements – The District accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value, and expanded disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2024, which are not payable until 2025, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

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.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the “tax shift.”

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Unearned Revenue – Unearned revenue consists of student lunch balances in the food service fund.

Inventory – Inventory is recorded using the consumption method of accounting and consists of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

Capital Assets – Capital 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 their acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. 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 purposes. Useful lives vary from 20 years for land improvements, 20 to 50 years for buildings, and 5 to 20 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any.

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.

Leases – The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the District has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the District is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the District uses its incremental borrowing rate based on the information available at the lease commencement date. The District accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the District is reasonably certain to exercise.

Compensated Absences – The District accounts for compensated absences using a days-used approach. This approach consists of gathering the historical usage of compensated absences used to determine both a liability related to leave to be used as time off and leave to be settled in cash upon termination of employment. Salary-related employer payments are included in the calculation of the compensated absence liability.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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 uses 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.

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 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 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.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment* Benefits which represents actuarial differences within OPEB, PERA and TRA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position 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 three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years*, is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third items, *Cost Sharing Defined Benefit Pension Plan* and *Other*

Postemployment Benefits represent actuarial differences within OPEB, PERA and TRA pension plans and other postemployment benefits.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.

Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education. The Board of Education designates the authority to assign fund balances to the superintendent.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The District will strive to maintain a minimum unassigned general fund balance of 25 percent of the annual budget.

F. 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 and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLE

The District implemented GASB Statement No. 101, *Compensated Absences*, in the fiscal year ended June 30, 2025. GASB Statement No. 101 establishes uniform accounting and financial reporting requirements for compensated absences.

The adoption of GASB 101 resulted in the recognition of an additional compensated absence liability of $135,831 as of July 1, 2024.

NOTE 3 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank.

The District's interest income for the year ended June 30, 2025, was $25,689.

The pooled cash and investment account is comprised of the following:

Cash	$ 2,735,678
Investments	250,299
Total	$ 2,985,977

As of June 30, 2025, the District's investments were in the Minnesota School District Liquid Asset Fund and MnTrust external investment pools.

Investments	Fair Value (Level 1)
Minnesota School District Liquid Asset Fund	$ 198,706
MnTrust	51,593
Total	$ 250,299

The Minnesota School District Liquid Asset Fund and the MnTrust are common law trusts organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Funds is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of School District monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

The Minnesota School District Liquid Asset Fund and the MnTrust are external investment pools not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position in the pools is the same as the value of the pool shares.

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

(a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
(b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
(c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
(d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
(e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
(g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.
(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor's, while the MnTrust is rated Aaa by Moody's Investors Services.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2025, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the Minnesota School District Liquid Asset Fund and the MnTrust are not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 90,064	$	$	$ 90,064
Total Capital Assets, Not Being Depreciated	90,064			90,064
Capital Assets, Being Depreciated:				
Land Improvements	3,320,306			3,320,306
Buildings	21,184,387			21,184,387
Equipment	4,184,208	24,140		4,208,348
Right to Use- Lease Equipment	190,923		55,899	135,024
Total Capital Assets, Being Depreciated	28,879,824	24,140	55,899	28,848,065
Less Accumulated Depreciation For:				
Land Improvements	3,074,803	14,259		3,089,062
Buildings	12,479,884	464,705		12,944,589
Equipment	3,613,567	94,194		3,707,761
Right to Use - Equipment	90,551	33,457	55,899	68,109
Total Accumulated Depreciation	19,258,805	606,615	55,899	19,809,521
Total Capital Assets, Being Depreciated, Net	9,621,019	(582,475)		9,038,544
Governmental Activities Capital Assets, Net	$ 9,711,083	$ (582,475)	$	$ 9,128,608

In the statement of activities, depreciation/amortization expense was charged to the following governmental functions:

District Support Services	$ 33,457
Elementary & Secondary Regular Instruction	10,709
Community Education & Services	633
Instructional Support Services	14,945
Pupil Support Services	64,544
Sites and Buildings	482,327
Total Depreciation/Amortization Expense	$ 606,615

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Substantially, all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

A. Public Employees Retirement Association

Plan Description – The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA). These plan provisions are established and administered according to 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 plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (General 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.

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.

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any five 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 the 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 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of 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 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent 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 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. The 2024 annual increase was 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of 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 June 30 before the effective date of the increase will receive a prorated increase.

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

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2025 and the District was required to contribute 7.50 percent for General Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2025, were $107,043. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2025, the District reported a liability of $666,746 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 $17,241.

District's proportionate share of net pension liability	$	666,746
State of Minnesota's proportionate share of the net pension liability associated with the District		17,241
Total	$	683,987

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 proportion 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, 2024, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0180% at the end of the measurement period and 0.0196% for the beginning of the period.

For the year ended June 30, 2025, the District recognized pension expense of $55,550 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized $462 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual $16 million contribution.

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 schedules 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 $2,960 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 General Employees Fund.

At June 30, 2025, the District reported its proportionate share of the General Employee Plan's 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	$ 64,256	$
Net difference between projected and actual earnings on pension plan investments		187,181
Changes in actuarial assumptions	3,411	268,210
Changes in proportion	29,683	75,400
Employer contributions subsequent to the measurement date	107,043	
Total	$ 204,393	$ 530,791

The $107,043 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 ending 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 Ending June 30	Pension Expense Amount
2026	$ (220,146)
2027	(53,683)
2028	(108,606)
2029	(51,006)

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	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

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 to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% 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% after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table.

Actuarial assumptions are reviewed every four years. The most recent four-year experience study was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

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

General Employees Fund
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.

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 of the General Employees Fund 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.

Pension Liability Sensitivity – The following 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 one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity Analysis - NPL at Different Discount Rates		
1% Decrease (6.0%)	Current (7.0%)	1% Increase (8.0%)
$ 1,456,280	$ 666,746	$ 17,282

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

B. Teachers Retirement Association

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 employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage within one year of eligible employment or elect coverage through the Defined Contribution Retirement Plan (DCR) administered by Minnesota State. A teacher employed by Minnesota State and electing DCR plan is not a member of TRA except for purposes of social security coverage.

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	1st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per yea

With these provisions:

a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
c) 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 percent per year for Coordinated members and 2.7 percent per year for Basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent 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 benefit 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.

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 $228,235. The District's contributions were equal to the required contributions for each year as set by state statute.

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

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 - 8.85% before July 1, 2028 and 3.25% - 9.25% after June 30, 2028
Cost of Living Adjustment	1.00% for January 2019 through January 2023, then increasing by 0.10% each year up to 1.50% annually
Mortality Assumption	
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.

Healthy Retirees	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 GASB67 purposes, the long-term rate of return assumptions is selected by TRA management in consultation with actuary.*

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%

<u>Changes in actuarial assumptions since the 2023 valuation:</u>

- 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 Pub2010 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 & 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.

<u>Discount Rate</u> - The discount rate used to measure the total pension liability was 7.00 percent. The discount rate used to measure the TPL at the Prior Measurement Date was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 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.

Net Pension Liability - On June 30, 2025, the District reported a liability of $2,675,169 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 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 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 0.0421% at the end of the measurement period and 0.0453% 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	$	2,675,169
State's proportionate share of the net pension liability associated with the district	$	174,758

For the year ended June 30, 2025, the District recognized pension expense of $218,010. It also recognized $9,607 as a decrease to 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 $15,943 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.

On June 30, 2025, the District had deferred resources related to pensions from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	$	127,909	$	36,516
Net difference between projected and actual earnings on plan inv.				361,467
Changes in actuarial assumptions		267,237		319,021
Changes in proportion		133,919		220,309
District contributions subsequent to the measurement date		228,235		
Total	$	757,300	$	937,313

$228,235 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 ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2026	$ (176,176)
2027	233,468
2028	(204,629)
2029	(179,410)
2030	(81,501)

Pension Liability Sensitivity - The following presents the net pension liability calculated using the discount rate of 7.00 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage higher (8.00 percent) than the current rate.

Sensitivity Analysis - NPL at Different Discount Rates		
1% Decrease (6.0%)	Current (7.0%)	1% Increase (8.0%)
$ 4,711,129	$ 2,675,169	$ 999,526

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, 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.

The District recognized total pension expense of $273,560 for all of the pension plans in which it participates.

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions, and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups. In as much as the plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-along report issued.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. The District recognized expenditures on a pay-as-you-go basis.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

Employees Covered by Benefit Term – At June 30, 2025, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	83
Total Members	84

Total OPEB Liability – The District's total OPEB liability of $851,523 was measured as of July 1, 2024 and was determined by an actuarial valuation as of July 1, 2023.

Actuarial Assumptions – The total OPEB liability in the July 1, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	2.50 percent
Salary increases	rates vary by service years
Medical Cost Trend Rate	6.25 percent in 2024 grading to 5.0 percent over 5 years and then to 4.0 percent over the next 48 years

The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount -Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.

The discount rate is based on the estimated yield of 20-year municipal bonds. The overall single discount rate is 4.1%.

In the July 1, 2023 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2024	$ 765,337
Changes for the year:	
Service Cost	75,626
Interest Cost	32,544
Assumption Changes	(8,877)
Benefit Payments	(13,107)
Net Changes	86,186
Balance at 6/30/2025	$ 851,523

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – 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 a discount rate that is one percentage point lower (3.10 percent) or one percentage point higher (5.10 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (3.1%)	Current (4.1%)	1% Increase (5.1%)
$ 907,593	$ 851,523	$ 798,007

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – 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 one percentage point lower (5.25 percent decreasing to

4.00 percent over 6 years) or one percentage point higher (7.25 percent decreasing to 6.00 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.25% decreasing to 4.00% over 6 years)	(6.25% decreasing to 5.00% over 6 years)	(7.25% decreasing to 6.00% over 6 years)
$ 814,165	$ 851,523	$ 895,808

<u>OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB</u> – For the year ended June 30, 2025, the District recognized OPEB expense of $77,901. 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
Assumption changes	$ 27,220	$ 55,894
Differences between expected and actual experience		131,484
Employer contributions paid subsequent to the measurement date	154,171	
Total	$ 181,391	$ 187,378

The $154,171 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ending June 30	OPEB Expense Amount
2026	$ (30,269)
2027	(30,269)
2028	(30,266)
2029	(25,713)
2030	(29,022)
Thereafter	(14,619)

NOTE 7 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2025 are as follows:

	Beginning Balance (Restated)	Additions	Retired	Ending Balance	Due Within One Year
G.O. Building Bonds	$ 130,000	$	$ 40,000	$ 90,000	$ 45,000
G.O. Refunding Bonds	9,910,000		710,000	9,200,000	735,000
Unamortized Premium (Discount)	761,292		61,730	699,562	61,730
Total Bonds	10,801,292		811,730	9,989,562	841,730
Lease Payable	102,812		32,291	70,521	34,464
Financed Purchase	36,951		24,223	12,728	12,728
Compensated Absences	466,691		53,690	413,001	292,917
Total Long-Term Liabilities	$ 11,407,746	$	$ 921,934	$ 10,485,812	$ 1,181,839

Compensated absences are presented net of additions and retirements.

The District's interest expense for the year ended June 30, 2025, was $233,940.

A. General Obligation Building Bonds

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2025	Amounts Due in 2025-2026 Principal	Amounts Due in 2025-2026 Interest
2016	0.82 - 2.0%	2025/27	$ 360,000	$ 40,000	$ 90,000	$ 45,000	$ 1,800
				$ 40,000	$ 90,000	$ 45,000	$ 1,800

B. General Obligation Refunding Bond

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2025	Amounts Due in 2025-2026 Principal	Amounts Due in 2025-2026 Interest
2016	0.82 - 2.0%	2025/27	$ 840,000	$ 90,000	$ 180,000	$ 90,000	$ 3,600
2021	3.2 - 4.8%	2025/36	10,935,000	620,000	9,020,000	645,000	266,300
				$ 710,000	$ 9,200,000	$ 735,000	$ 269,900

Annual debt service requirements to maturity are as follows:

Year Ending	G.O. Building Bonds		G.O. Refunding Bonds	
June 30	Principal	Interest	Principal	Interest
2026	$ 45,000	$ 1,800	$ 735,000	$ 269,900
2027	45,000	900	765,000	242,300
2028			800,000	213,500
2029			835,000	181,500
2030			865,000	148,100
2031-2035			4,375,000	366,650
2036			825,000	16,500
	$ 90,000	$ 2,700	$ 9,200,000	$ 1,438,450

C. Financed Purchase

During the year, the District financed the purchase of a mower through the distributor. Annual debt service requirements to maturity are as follows:

Year Ending	Financed Purchase	
June 30	Principal	Interest
2026	$ 12,728	$ 248
	$ 12,728	$ 248

D. Lease

The District is a lessee for noncancellable leases of a postage machine and copy machines. The value of the lease liability as of June 30, 2025 was $70,521. The value of the right to use lease assets was $135,024 at the end of the fiscal year and had accumulated amortization of $68,109.

The future principal and lease payments are as follows:

Maturity Analysis	Principal	Interest
2026	$ 34,464	$ 3,612
2027	36,057	1,296
	$ 70,521	$ 4,908

NOTE 8 INTERFUND TRANSFERS

The composition of interfund balances as of June 30, 2025, is as follows:

Interfund Transfers:

Transfer In	Transfer Out	Amount
Nonmajor Governmental Fund	General	$166,647

The purpose of the interfund transfers is to move the taxing authority for the swimming pool to the community service fund.

NOTE 9 COMPENSATED ABSENCES

The District has compensated absences consisting of severance plans, vacation plans, and sick leave. The District accounts for compensated absences using a days-used approach. This approach consists of gathering the historical usage of compensated absences used to determine both a liability related to leave to be used as time off and leave to be settled in cash upon termination of employment. Salary-related employer payments are included in the calculation of the compensated absence liability. At June 30, 2025, the estimated liability under this plan was $413,001.

NOTE 10 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2025.

NOTE 11 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; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District joined together with other governmental entities in the Minnesota Insurance Scholastic Trust, a public entity risk pool currently operating as common risk management and insurance program for member entities. The District pays an annual premium to this plan for its property liability insurance coverage. These premiums are used to create a self-insurance pool for smaller losses and purchases reinsurance through commercial companies for larger losses. The administrators of the plan believe assessment to participating entities for future losses sustained is extremely remote.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 12 NEW PRONOUNCEMENTS

GASB Statement No. 103, *Financial Reporting Model Improvements*, revises the requirements for management’s discussion and analysis with the goal of making it more readable and understandable, requires unusual or infrequent items to be presented separately, defines operating and nonoperating revenues, includes a new section for noncapital subsidies for proprietary funds’ statement of revenues, expenses and changes in net position, removes the option to disclose major component information in the notes and requires them to be shown individually or in combine financial statements following the fund financial statements and requires budgetary comparisons to be presented as RSI with new columns for variances between original-to-final budget and final budget-to-actual results. This statement is effective for fiscal years beginning after June 15, 2025.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note. These items include disclosing separately lease assets, intangible right-to-use assets, subscription assets and intangible assets. In addition, additional disclosures will be required for capital assets held for sale. This statement is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

Management has not yet determined the effect these statements will have on the District's financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2025

	Original Budgeted Amount	Final Budgeted Amount	Actual	Over (Under) Final Budget
REVENUES				
Local Property Tax Levies	$ 1,751,375	$ 1,612,867	$ 1,492,730	$ (120,137)
Other Local & County Revenues	238,189	171,684	189,911	18,227
Revenue From State Sources	5,122,713	5,608,040	5,612,242	4,202
Revenue From Federal Sources	146,250	177,010	166,727	(10,283)
TOTAL REVENUES	7,258,527	7,569,601	7,461,610	(107,991)
EXPENDITURES				
Current				
Administration	308,187	308,155	309,134	979
District Support Services	530,967	519,773	410,881	(108,892)
Elementary & Secondary				
Regular Instruction	3,385,107	3,402,878	3,282,979	(119,899)
Vocational Education Instruction	71,077	71,077	72,704	1,627
Special Education Instruction	582,430	582,440	631,748	49,308
Instructional Support Services	108,413	108,413	130,627	22,214
Pupil Support Services	695,763	696,793	735,395	38,602
Sites and Buildings	924,705	969,551	877,603	(91,948)
Fixed Costs	91,631	91,631	91,542	(89)
Debt Service				
Principal			56,514	56,514
Interest and Fees			7,512	7,512
Capital Outlay	207,934	184,780	42,542	(142,238)
TOTAL EXPENDITURES	6,906,214	6,935,491	6,649,181	(286,310)
Revenues Over Expenditures	352,313	634,110	812,429	178,319
OTHER FINANCING SOURCES (USES)				
Transfer Out	(204,237)	(204,237)	(166,647)	37,590
TOTAL OTHER FINANCING SOURCES (USES)	(204,237)	(204,237)	(166,647)	37,590
Net Change in Fund Balances	148,076	429,873	645,782	215,909
Fund Balances - Beginning	680,322	680,322	680,322	
Fund Balances - Ending	$ 828,398	$ 1,110,195	$ 1,326,104	$ 215,909

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
June 30, 2025

	2018	2019	2020	2021	2022	2023	2024	2025
Total OPEB Liability								
Service Cost	$ 65,955	$ 67,934	$ 80,965	$ 91,621	$ 90,044	$ 73,594	$ 75,427	$ 75,626
Interest	33,678	31,284	31,047	27,070	22,268	17,009	30,332	32,544
Assumption Changes			5,956	29,842	19,455	(72,005)	1,495	(8,877)
Plan Changes					(17,986)		(23,654)	
Differences Between Expected and Actual Experience			(46,975)		(183,349)		(17,955)	
Benefit Payments	(209,194)	(134,201)	(103,967)	(139,384)	(44,534)	(18,979)	(45,732)	(13,107)
Net Change in Total OPEB Liability	(109,561)	(34,983)	(32,974)	9,149	(114,102)	(381)	19,913	86,186
Total OPEB Liability - Beginning	1,028,276	918,715	883,732	850,758	859,907	745,805	745,424	765,337
Total OPEB Liability - Ending	$ 918,715	$ 883,732	$ 850,758	$ 859,907	$ 745,805	$ 745,424	$ 765,337	$ 851,523
Covered Payroll	$ 3,498,728	$ 3,603,690	$ 3,600,113	$ 3,708,116	$ 3,934,121	$ 4,052,145	$ 4,294,059	$ 4,422,881
District's Total OPEB Liability as a Percentage of a Covered Payroll	26.26%	24.52%	23.63%	23.19%	18.96%	18.40%	17.82%	19.25%

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
Last 10 Years

	Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
PERA						
	2016	$ 87,472	$ 87,472	$	$ 1,166,293	7.50 %
	2017	95,125	95,125		1,268,333	7.50
	2018	95,899	95,899		1,278,653	7.50
	2019	93,942	93,942		1,252,560	7.50
	2020	88,926	88,926		1,185,680	7.50
	2021	91,785	91,785		1,223,800	7.50
	2022	98,377	98,377		1,311,693	7.50
	2023	109,792	109,792		1,463,893	7.50
	2024	114,429	114,429		1,525,720	7.50
	2025	107,043	107,043		1,427,244	7.50
TRA						
	2016	$ 178,323	$ 178,323	$	$ 2,377,640	7.50 %
	2017	180,078	180,078		2,401,040	7.50
	2018	179,903	179,903		2,398,707	7.50
	2019	187,887	187,887		2,436,926	7.71
	2020	195,480	195,480		2,468,182	7.92
	2021	202,924	202,924		2,495,990	8.13
	2022	226,868	226,868		2,720,240	8.34
	2023	249,962	249,962		2,923,532	8.55
	2024	233,375	233,375		2,667,142	8.75
	2025	228,235	228,235		2,608,400	8.75

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
SCHEDULE OF DISTRICT SHARE OF NET PENSION LIABILITY
Last 10 Years

Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)	Total	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA							
2015	0.0215 %	$ 1,114,242	$	$ 1,114,242	$ 1,193,093	93.39 %	78.19 %
2016	0.0202	1,640,140	21,354	1,661,494	1,166,293	140.63	68.90
2017	0.0206	1,315,090	16,529	1,331,619	1,268,333	103.69	75.90
2018	0.0203	1,126,161	36,824	1,162,985	1,278,653	88.07	79.53
2019	0.0192	1,061,525	32,999	1,094,524	1,252,560	84.75	80.23
2020	0.0177	1,061,196	32,641	1,093,837	1,185,680	89.50	79.06
2021	0.0181	772,951	23,664	796,615	1,223,800	63.16	87.00
2022	0.0189	1,496,886	43,762	1,540,648	1,311,693	114.12	76.67
2023	0.0196	1,096,010	30,303	1,126,313	1,463,893	74.87	83.10
2024	0.0180	666,746	17,241	683,987	1,525,720	43.70	89.08
TRA							
2015	0.0458 %	$ 2,833,183	$ 347,397	$ 3,180,580	$ 2,322,413	121.99 %	76.77 %
2016	0.0457	10,900,540	1,094,411	11,994,951	2,377,640	458.46	44.88
2017	0.0446	8,902,969	860,422	9,763,391	2,401,040	370.80	51.57
2018	0.0434	2,726,951	256,229	2,983,180	2,398,707	113.68	78.07
2019	0.0429	2,734,455	242,009	2,976,464	2,436,926	112.21	78.21
2020	0.0425	3,139,957	263,357	3,403,314	2,468,182	127.22	75.48
2021	0.0417	1,824,917	153,854	1,978,771	2,495,990	73.11	86.63
2022	0.0436	3,491,257	259,167	3,750,424	2,720,240	128.34	76.17
2023	0.0453	3,740,069	262,133	4,002,202	2,923,532	127.93	76.42
2024	0.0421	2,675,169	174,758	2,849,927	2,667,142	100.30	82.07

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

NOTE 1 BUDGETARY DATA

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. 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. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

NOTE 2 DEFINED BENEFIT PLANS

PERA

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.

TRA

Changes in actuarial assumptions since the 2023 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 Pub2010 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 & 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.

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Changes since the prior valuation:

Assumption Changes:

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

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2025

	Special Revenue		Total
	Food Service Fund	Community Service Fund	Nonmajor Governmental Funds
ASSETS			
Cash and Investments	$ 147,607	$ 100,955	$ 248,562
Current Property Taxes Receivable		20,577	20,577
Delinquent Property Taxes Receivable		1,095	1,095
Accounts Receivable		2,500	2,500
Due From Department of Education	10,243	3,230	13,473
Due From Federal Govt. - DOE	8,283		8,283
Inventory	9,864		9,864
TOTAL ASSETS	$ 175,997	$ 128,357	$ 304,354
LIABILITIES			
Salaries Payable	$ 1,671	$ 2,364	$ 4,035
Unavailable Revenue	7,066		7,066
TOTAL LIABILITIES	8,737	2,364	11,101
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Delinquent Taxes		1,095	1,095
Property Taxes Levied - Subs. Years		48,706	48,706
TOTAL DEFERRED INFLOWS OF RESOURCES		49,801	49,801
FUND BALANCES			
Fund Balance:			
Nonspendable: Inventory	9,864		9,864
Restricted for Food Service	157,396		157,396
Restricted for Community Education		145,319	145,319
Restricted for ECFE		57,893	57,893
Restricted for Community Service		1,383	1,383
Unassigned		(128,403)	(128,403)
TOTAL FUND BALANCES	167,260	76,192	243,452
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 175,997	$ 128,357	$ 304,354

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2025

	Special Revenue		Total
	Food Service Fund	Community Service Fund	Nonmajor Governmental Funds
REVENUES			
Local Property Tax Levies	$	$ 37,051	$ 37,051
Other Local & County Revenues	9,346	41,766	51,112
Revenue From State Sources	196,102	48,167	244,269
Revenue From Federal Sources	169,121		169,121
Sale/Other Conversion of Asset	8,620		8,620
TOTAL REVENUES	383,189	126,984	510,173
EXPENDITURES			
Current			
Community Education and Services		279,737	279,737
Pupil Support Services	374,447		374,447
TOTAL EXPENDITURES	374,447	279,737	654,184
Revenues Over (Under) Expenditures	8,742	(152,753)	(144,011)
OTHER FINANCING SOURCES			
Transfers In	3,074	163,573	166,647
TOTAL OTHER FINANCING SOURCES	3,074	163,573	166,647
Net Change in Fund Balances	11,816	10,820	22,636
Fund Balances - Beginning	155,444	65,372	220,816
Fund Balances - Ending	$ 167,260	$ 76,192	$ 243,452

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2025

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	UFARS Balance End of Year	Reclassify	Balance End of Year
General Fund							
Nonspendable for General Fund	$ 9,226	$	$	$	$ 9,226	$	$ 9,226
Restricted for:							
Student Activities	74,891	61,270	64,344		71,817		71,817
Staff Development	9,519	69,440	50,107		28,852		28,852
Literacy Incentive		19,255	18,483		772		772
Indian Ed		44,500	38,974		5,526		5,526
Operating Capital	187,310	107,820	31,186		263,944		263,944
Learning and Development	6,913	101,763	108,393		283		283
Achievement and Integration		22,902	9,575	(13,327)			
Safe School Crime Levy	63,248	15,405	2,815		75,838		75,838
Literacy Aid		18,293	3,180		15,113		15,113
LTFM	258,643	104,054	71,452		291,245		291,245
Medical Assistance			2,887	2,887			
FEMA	55,398				55,398		55,398
Committed for Separation/Retirement benefits	170,000				170,000		170,000
Assigned	22,699	5,195	73		27,821		27,821
Unassigned	(177,525)	6,891,713	6,247,712	(156,207)	310,269		310,269
Food Service Fund							
Nonspendable	19,460			(9,596)	9,864		9,864
Restricted for Food Service	135,984	383,189	374,447	12,670	157,396		157,396
Community Service Fund							
Restricted for:							
Community Education	163,902	61,881	244,037	163,573	145,319		145,319
ECFE	39,166	28,904	10,177		57,893		57,893
School Readiness	(137,870)	33,537	24,070		(128,403)	128,403	
Community Service	174	2,662	1,453		1,383		1,383
Unassigned						(128,403)	(128,403)
Debt Service Fund							
Restricted for Debt Service	224,645	1,099,480	1,049,575		274,550		274,550

BradyMartz

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education
Independent School District No. 390
Baudette, 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. 390 as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 18, 2025.

Legal Compliance

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 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 of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was 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.

Purpose of the Report

The purpose of this report is solely 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.

Brady Martz

BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

November 18, 2025

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Independent School District No. 390
Baudette, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 390, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 18, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying scheduled of findings as item 2025-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings as item 2025-002 to be a significant deficiency.

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.*

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying schedule of findings and corrective action plan. The District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 result 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.

Brady Martz

BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

November 18, 2025

2025-001 FINDING

Criteria
A proper system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition
There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keepings and reconciliation.

Cause
The District is subject to size and budget constraints limiting the number of personnel within the accounting department.

Effect
The design of the internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation
We recommend the District review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review on an annual basis.

2025-002 FINDING

Criteria
An appropriate system of internal control requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition
The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause
The District elected to not allocate resources for the preparation of the financial statements.

Effect
There is an increased risk of material misstatement to the District's financial statements.

Recommendation
We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statement and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review on an annual basis.

2025-001 FINDING

Contact Person – Superintendent

Corrective Action Plan – The District has the following procedures in place to mitigate risk: the Superintendent reviews and approves all journal entries, the board approves checks, and the Superintendent reviews all bank statements and credit card statements before turning the statements over to the business office for reconciliation. When it becomes economically feasible, the District will hire additional personnel in the accounting department to improve segregation of duties.

Completion Date – Ongoing

2025-002 FINDING

Contact Person – Superintendent

Corrective Action Plan – Will establish a policy to document review of financial statements and notes.

Completion Date – Ongoing

INDEPENDENT SCHOOL DISTRICT NO. 390
BAUDETTE, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2025

District Name: INDEPENDENT SCHOOL DISTRICT NO. 390 **District Number:** 390

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	7,461,610	7,461,611	(1)
Total Expenditures	6,649,181	6,649,179	2
Non Spendable			
460 Non Spendable Fund Balance	9,226	9,228	(2)
Restricted/Reserved:			
401 Student Actvities	71,817	71,817	
402 Scholarships			
403 Staff Development	28,852	28,853	(1)
407 Capital Projects Levy			
408 Cooperative Revenue			
412 Literacy Incentive Aid	772	772	
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
420 American Indian Ed Aid	5,526	5,526	
424 Operating Capital	263,944	263,943	1
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development	283	283	
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program			
437 Q Comp			
438 Gifted & Talented			
439 English Learner			
440 Teacher Development and Eval			
441 Basic Skills Programs			
443 School Library Aid			
448 Achievement and Integration			
449 Safe Schools Levy	75,838	75,838	
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfunded Sev & Retiremt Levy			
456 Literacy Aid	15,113	15,113	
457 Teacher Comp Read Act			
467 LTFM	291,245	291,244	1
471 Student Support Personnel			
472 Medical Assistance			
Restricted			
464 Restricted Fund Balance	55,398	55,398	
475 Title VII - Impact Aid			
476 PILT			
Committed			
418 Committed for Separation	170,000	170,000	
461 Committed			
Assigned			
462 Assigned Fund Balance	27,821	27,830	(9)
Unassigned:			
422 Unassigned Fund Balance	310,269	310,262	7
Reconciliation of General	15,436,895	15,436,897	(2)
02 FOOD SERVICE			
Total Revenue	383,189	383,188	1
Total Expenditures	374,447	374,447	
Non Spendable			
460 Non Spendable Fund Balance	9,864	9,864	
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	157,396	157,394	2
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Food Service	924,896	924,893	3
04 COMMUNITY SERVICE			
Total Revenue	126,984	126,984	
Total Expenditures	279,737	279,737	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	145,319	145,313	6
432 E.C.F.E.	57,893	57,893	
440 Teacher Development and Eval			
444 School Readiness	(128,403)	(128,403)	

	Audit	UFARS	Variance
Restricted/Reserved:			
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	1,383	1,390	(7)
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	482,913	482,914	(1)
06 BUILDING CONSTRUCTION			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
413 Projects Funded By COP			
467 LTFM			
Restricted			
464 Restricted Fund Balance			
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction			
07 DEBT SERVICE			
Total Revenue	1,099,480	1,099,481	(1)
Total Expenditures	1,049,575	1,049,575	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance	274,550	274,550	
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Debt Service	2,423,605	2,423,606	(1)
08 TRUST			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Trust			
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Irrevocable Trust			
47 OPEB DEBT SERVICE FUND			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refunding			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service			

APPENDIX B

FORM OF LEGAL OPINION

(See following pages)

150 South Fifth Street, Suite 700
Minneapolis, MN 55402
(612) 337-9300 telephone
(612) 337-9310 fax
www.kennedy-graven.com
Affirmative Action, Equal Opportunity Employer

$__________
INDEPENDENT SCHOOL DISTRICT NO. 390
(LAKE OF THE WOODS SCHOOL)
LAKE OF THE WOODS COUNTY, MINNESOTA
GENERAL OBLIGATION SCHOOL BUILDING BONDS
SERIES 2026A

We have acted as bond counsel to Independent School District No. 390 (Lake of the Woods School), Lake of the Woods County, Minnesota (the "Issuer"), in connection with the issuance by the Issuer of its General Obligation School Building Bonds, Series 2026A (the "Bonds"), originally dated __________, and issued in the original aggregate principal amount of $_________. In such capacity and for the purpose of rendering this opinion we have examined certified copies of certain proceedings, certifications and other documents, and applicable laws as we have deemed necessary. Regarding questions of fact material to this opinion, we have relied on certified proceedings and other certifications of public officials and other documents furnished to us without undertaking to verify the same by independent investigation. Under existing laws, regulations, rulings, and decisions in effect on the date hereof, and based on the foregoing we are of the opinion that:

1. The Bonds have been duly authorized and executed and are valid and binding general obligations of the Issuer, enforceable in accordance with their terms.

2. The principal of and interest on the Bonds are payable from ad valorem taxes levied by the Issuer on all taxable property of the Issuer, but if necessary for the payment thereof, additional ad valorem taxes are required by law to be levied on all taxable property of the Issuer, which taxes are not subject to any limitation as to rate or amount.

3. Interest on the Bonds is excludable from gross income of the recipient for federal income tax purposes and, to the same extent, is excludable from taxable net income of individuals, trusts, and estates for Minnesota income tax purposes, and is not a preference item for purposes of the computation of the federal alternative minimum tax, or the computation of the Minnesota alternative minimum tax imposed on individuals, trusts, and estates. However, such interest is included in determining the annual adjusted financial statement income (as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the "Code")) of applicable corporations (as defined in Section 59(k) of the Code) for purposes of computing the alternative minimum tax imposed on such applicable corporations, and is subject to Minnesota franchise taxes on certain corporations (including financial institutions) measured by income. The opinion set forth in this paragraph is subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes and from taxable net income for Minnesota income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes and taxable net income for Minnesota income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

4. The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

5. The resolution adopted by the School Board of the Issuer on December 15, 2025, obligates the Issuer to be bound by the provisions of Minnesota Statutes, Section 126C.55. We express no opinion as to the enforceability of the provisions of that law against the State of Minnesota (the "State") in the absence of appropriated and available funds to pay the obligations of the State thereunder.

We have not been asked and have not undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Bonds, and accordingly we express no opinion with respect thereto.

This opinion is given as of the date hereof and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Dated ___________ 2026, at Minneapolis, Minnesota.

APPENDIX C

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following pages)

$___________
INDEPENDENT SCHOOL DISTRICT NO. 390
(LAKE OF THE WOODS SCHOOL)
LAKE OF THE WOODS COUNTY, MINNESOTA
GENERAL OBLIGATION SCHOOL BUILDING BONDS
SERIES 2026A

CONTINUING DISCLOSURE CERTIFICATE

________, 2026

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 390 (Lake of the Woods School), Lake of the Woods County, Minnesota (the "District"), in connection with the issuance of its General Obligation School Building Bonds, Series 2026A (the "Bonds"), in the original aggregate principal amount of $___________. The Bonds are being issued pursuant to a resolution adopted by the School Board of the District (the "Resolution"). The Bonds are being delivered to ____________[, as syndicate manager] (the "Purchaser"), on the date hereof. Pursuant to the Resolution, the District has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The District hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders (as defined herein) of the Bonds in order to provide for the public availability of such information and assist the Participating Underwriter(s) (as defined herein) in complying with the Rule (as defined herein). This Disclosure Certificate, together with the Resolution, constitutes the written agreement or contract for the benefit of the Holders of the Bonds that is required by the Rule.

Section 2. Definitions. In addition to the defined terms set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any annual report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" means annual financial statements of the District, prepared in accordance with GAAP as prescribed by GASB.

"Bonds" means the General Obligation School Building Bonds, Series 2026A, issued by the District in the original aggregate principal amount of $_________.

"Disclosure Certificate" means this Continuing Disclosure Certificate.

"District" means Independent School District No. 390 (Lake of the Woods School), Lake of the Woods County, Minnesota, which is the obligated person with respect to the Bonds.

"EMMA" means the Electronic Municipal Market Access system operated by the MSRB and designated as a nationally-recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule.

"Final Official Statement" means the Final Official Statement, dated _________, 2026, which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

"Financial Obligation" means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a Financial Obligation as described in clause (a) or (b). The term "Financial Obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Fiscal Year" means the fiscal year of the District.

"GAAP" means generally accepted accounting principles for governmental units as prescribed by GASB.

"GASB" means the Governmental Accounting Standards Board.

"Holder" means the person in whose name a Bond is registered or a beneficial owner of such a Bond.

"Material Event" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board located at 1300 I Street NW, Suite 1000, Washington, DC 20005.

"Participating Underwriter" means any of the original underwriter(s) of the Bonds (including the Purchaser) required to comply with the Rule in connection with the offering of the Bonds.

"Purchaser" means ___________[, as syndicate manager].

"Repository" means EMMA, or any successor thereto designated by the SEC.

"Rule" means SEC Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the SEC.

"SEC" means Securities and Exchange Commission, and any successor thereto.

Section 3. <u>Provision of Annual Financial Information and Audited Financial Statements</u>.

(a) The District shall provide to the Repository not later than twelve (12) months after the end of the Fiscal Year commencing with the year that ends June 30, 2026, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate, provided that the Audited Financial Statements of the District may be submitted separately from the balance of the Annual Report.

(b) If the District is unable or fails to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a notice of that fact to the Repository and the MSRB.

(c) The District shall determine each year prior to the date for providing the Annual Report the name and address of each Repository.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following sections of the Final Official Statement:

1. Current Property Valuations
2. Direct Debt
3. Tax Levies and Collections
4. Student Body
5. Employment/Unemployment Data

In addition to the items listed above, the Annual Report shall include the most recent Audited Financial Statements submitted in accordance with Section 3 of this Disclosure Certificate.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Material Events.

(a) This Section 5 shall govern the giving of notice of the occurrence of any of the following events ("Material Events") with respect to the Bonds:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701–TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. Modifications to rights of security holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the obligated person;

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;

15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and

16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(b) The District shall file a notice of such occurrence with the Repository or with the MSRB within ten (10) business days of the occurrence of the Material Event.

(c) Unless otherwise required by law and subject to technical and economic feasibility, the District shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the District's information.

Section 6. EMMA. The SEC has designated EMMA as a nationally-recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule. Until the EMMA system is amended or altered by the MSRB and the SEC, the District shall make all filings required under this Disclosure Certificate solely with EMMA.

Section 7. Termination of Reporting Obligation. The District's obligations under the Resolution and this Disclosure Certificate shall terminate upon the redemption in full of all Bonds or payment in full of all Bonds.

Section 8. Agent. The District may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Resolution and this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of the Resolution or this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of nationally-recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause a violation of the Rule. The provisions of the Resolution requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate, or any provision hereof, shall be null and void in the event that the District delivers to the Repository an opinion of nationally-recognized bond counsel to the effect that those portions of the Rule which impose the continuing disclosure requirements of the Resolution and the execution and delivery of this Disclosure Certificate are invalid, have been repealed retroactively or otherwise do not apply to the Bonds. The provisions of the Resolution requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate may be amended without the consent of the Holders of the Bonds, but only upon the delivery by the District to the Repository of the proposed amendment and an opinion of nationally-recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect compliance with the Rule.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations under the Resolution and this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default with respect to the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, we have executed this Disclosure Certificate in our official capacities effective as of the date and year first written above.

INDEPENDENT SCHOOL DISTRICT NO. 390 (LAKE OF THE WOODS SCHOOL), LAKE OF THE WOODS COUNTY, MINNESOTA

____

Board Chair

____

Clerk

APPENDIX E

TERMS OF PROPOSAL

$5,000,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2026A
INDEPENDENT SCHOOL DISTRICT NO. 390 (LAKE OF THE WOODS SCHOOL), MINNESOTA

Proposals for the purchase of $5,000,000* General Obligation School Building Bonds, Series 2026A (the "Bonds") of Independent School District No. 390 (Lake of the Woods School), Minnesota (the "District") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3001 Broadway Street, Suite 320, Minneapolis, Minnesota 55413, municipal advisors to the District, until 9:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 9:30 A.M., Central Time, on February 23, 2026, at which time they will be opened, read and tabulated. The proposals will be presented to the School Board for consideration for award by resolution at a meeting to be held at 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

AUTHORITY; PURPOSE; SECURITY

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and a special election held November 4, 2025, by the District, for the purpose of financing the acquisition and betterment of school sites and facilities in the District. The Bonds will be general obligations of the District for which its full faith and credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated March 19, 2026, will be issued as fully registered Bonds in the denomination of $5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2027	$135,000	2032	$200,000	2037	$575,000
2028	300,000	2033	210,000	2038	570,000
2029	160,000	2034	395,000	2039	590,000
2030	185,000	2035	410,000	2040	615,000
2031	190,000	2036	465,000		

ADJUSTMENT OPTION

The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2027, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2027 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The District has selected Bond Trust Services Corporation, Minneapolis, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2035 shall be subject to optional redemption prior to maturity on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the District. If only part of the Bonds having a common maturity date are called for redemption, then the District or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about March 19, 2026, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the District will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the District, threatened. Payment for the Bonds must be received by the District at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Kennedy & Graven, Chartered, Minneapolis, Minnesota, Bond Counsel to the District ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than $5,000,000 plus accrued interest on the principal sum of $5,000,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

1) Electronically to bondsale@ehlers-inc.com; or

2) Electronically via **PARITY** in accordance with this Terms of Proposal until 9:30 A.M., Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact IHS Markit (now part of S&P Global) at https://ihsmarkit.com/products/municipal-issuance.html or via telephone (844) 301-7334.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the District nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of $100,000 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. The Deposit will be deducted from the purchase price at the closing for the Bonds.

The District and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to $250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the District scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The District's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The District reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the District requested and received a rating on the Bonds from a rating agency, the District will pay that rating fee. Any rating agency fees not requested by the District are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The District will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriter (Syndicate Manager) in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the District will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the District under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the District by the District's municipal advisor identified herein and any notice or report to be provided to the District may be provided to the District's municipal advisor.

(b) The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

(1) The District shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;

(2) all bidders shall have an equal opportunity to bid;

(3) the District may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the District shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the winning bidder. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the District agrees to use the rule selected by the winning bidder on its proposal form to determine the issue price for the Bonds. On its proposal form, each bidder must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth (5^{th}) business day after the sale date; or

(2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder will advise the District promptly after the close of the fifth (5^{th}) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The District acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the 10% test, the winning bidder agrees to promptly report to the District, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the District or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the District or bond counsel.

(B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

(i) "public" means any person other than an underwriter or a related party,

(ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "sale date" means the date that the Bonds are awarded by the District to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Underwriter (Syndicate Manager) will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of $10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3001 Broadway Street, Suite 320, Minneapolis, Minnesota 55413, Telephone (651) 697-8500.

By Order of the School Board

Independent School District No. 390
(Lake of the Woods School), Minnesota

PROPOSAL FORM

The School Board **February 23, 2026**
Independent School District No. 390 (Lake of the Woods School), Minnesota (the "District")

RE: $5,000,000* General Obligation School Building Bonds, Series 2026A (the "Bonds")
DATED: March 19, 2026

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you $__________________ (not less than $5,000,000) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2027	________	% due	2032	________	% due	2037
________	% due	2028	________	% due	2033	________	% due	2038
________	% due	2029	________	% due	2034	________	% due	2039
________	% due	2030	________	% due	2035	________	% due	2040
________	% due	2031	________	% due	2036			

The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2027 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.
A good faith deposit ("Deposit") in the amount of $100,000 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. The Deposit will be deducted from the purchase price at the closing for the Bonds. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about March 19, 2026.

This proposal is subject to the District's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, and have submitted our requests for additional information or corrections to the Final Official Statement. As Underwriter (Syndicate Manager), we agree to provide the District with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

If the competitive sale requirements are not met, we elect to use either the: _____10% test, or the _____hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: ______________________________ By: ______________________________
Account Members:
Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from March 19, 2026 of the above proposal is $_______________and the true interest cost (TIC) is __________%.

The foregoing offer is hereby accepted by and on behalf of the School Board of Independent School District No. 390 (Lake of the Woods School), Minnesota, on February 23, 2026.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________