

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 6, 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 NOT designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 (b)(3) of the Internal Revenue Code of 1986, as amended, which permits financial institutions to deduct interest expenses allocable to the Bonds to the extent permitted under prior law.

New Issue

Rating Application Made: Moody's Investors Service, Inc.

INDEPENDENT SCHOOL DISTRICT NO. 885 (ST. MICHAEL-ALBERTVILLE), MINNESOTA (Wright County)

(Minnesota School District Credit Enhancement Program)

\$21,000,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2026A

PROPOSAL OPENING: March 16, 2026, 9:30 A.M., C.T. **CONSIDERATION:** March 16, 2026, 6:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$21,000,000* 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. 885 (St. Michael-Albertville), 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: April 9, 2026

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2027	\$410,000	2034	\$475,000	2041	\$1,915,000
2028	120,000	2035	475,000	2042	1,995,000
2029	--	2036	475,000	2043	2,080,000
2030	--	2037	475,000	2044	2,170,000
2031	--	2038	1,685,000	2045	2,270,000
2032	--	2039	1,770,000	2046	2,370,000
2033	475,000	2040	1,840,000		

***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, 2036 and thereafter are subject to call for prior optional redemption on February 1, 2035 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

MINIMUM PROPOSAL: \$21,000,000.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$420,000 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).

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b)(1), but is subject to revision, amendment and completion in a Final Official Statement.

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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ST. MICHAEL-ALBERTVILLE SCHOOL BOARD

		<u>Term Expires</u>
Drew Scherber	Board Chair	January 2029
Hollee Saville	Vice Chair	January 2029
Carol Steffens	Clerk	January 2027
Tim Lewis	Treasurer	January 2027
Taylor Klemmensen	Member	January 2029
Travis Weber	Member	January 2027

ADMINISTRATION

Dr. Ann-Marie Foucault, Superintendent of Schools
Kris Crocker, Director of Business Services

PROFESSIONAL SERVICES

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. 885 (St. Michael-Albertville), Minnesota (the "District") and the issuance of its \$21,000,000* 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 March 16, 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 April 9, 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, 2036 shall be subject to optional redemption prior to maturity on February 1, 2035 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 3,510 - 2,689. Proceeds of the Bonds will be used to provide funds for the acquisition and betterment of school sites and facilities, including, enhancing safety and security systems at school buildings; updating learning technology and related infrastructure; completing maintenance and facility improvements; constructing and equipping a K-12 science, technology, engineering and math (STEM) addition; and upgrades to media centers.

ESTIMATED SOURCES AND USES*

Sources

Par Amount of Bonds	\$21,000,000	
Reoffering Premium	<u>558,435</u>	
Total Sources		\$21,558,435

Uses

Total Underwriter's Discount (1.000%)	\$210,000	
Costs of Issuance	146,575	
Deposit to Construction Fund	<u>21,201,860</u>	
Total Uses		\$21,558,435

*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 Moody's Investors Service, Inc. ("Moody's"). Moody's has a policy which assigns a minimum rating of "Aa1" to issuers participating in the MNCEP. The "Aa1" rating is based on the State of Minnesota's current "Aaa"/Stable outlook rating from Moody's. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS" for further details.

The District currently has a "Aa3" underlying rating from Moody's 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 1, 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.

In the previous five years, the District believes it has not failed to comply in all material respects with its prior undertakings under the Rule. 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.

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will NOT designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code, relating to the ability of certain financial institutions (within the meaning of Section 265(6)(5) of the Code) to deduct from income for federal income tax purposes, 80% of the 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 LB Carlson, LLP, Minneapolis, Minnesota, 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.

State Equalization Aids: A portion of the District's debt service is expected to be paid from state aids based upon an equalized debt service formula (the "Formula"). The Formula and District statistics are subject to modification and the dollar appropriation is made by the State Legislature.

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%

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	<u>\$4,467,485,415¹</u>
2024/25 Assessor's Estimated Market Value	
Real Estate	\$4,208,690,700
Personal Property	<u>29,403,400</u>
Total Valuation	<u>\$4,238,094,100</u>
2024/25 Net Tax Capacity	
Real Estate	\$42,934,435
Personal Property	<u>559,603</u>
Net Tax Capacity	\$43,494,038
Less:	
Captured Tax Increment Tax Capacity ²	(753,987)
Power Line Adjustment ³	<u>(2,948)</u>
Taxable Net Tax Capacity	<u>\$42,737,103</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the District was about 94.94% 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 \$4,467,485,415.

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

³ Ten percent of the net tax capacity of certain high voltage transmission lines is removed when setting local tax rates. However, taxes are paid on the full value of these lines. The taxes attributable to 10% of value of these lines are used to fund a power line credit. Certain property owners receive a credit when the high voltage transmission line runs over their property.

2024/25 NET TAX CAPACITY BY CLASSIFICATION

	2024/25 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$29,947,633	68.85%
Agricultural	1,177,134	2.71%
Commercial/industrial	6,371,397	14.65%
Public utility	20,069	0.05%
Railroad operating property	77,140	0.18%
Non-homestead residential	5,319,743	12.23%
Commercial & residential seasonal/rec.	21,319	0.05%
Personal property	<u>559,603</u>	<u>1.29%</u>
 Total	 <u><u>\$43,494,038</u></u>	 <u><u>100.00%</u></u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity¹	Adjusted Taxable Net Tax Capacity²	Percent Increase/Decrease in Estimated Market Value
2020/21	\$2,680,725,000	\$2,513,657,300	\$27,165,962	\$26,592,918	6.60%
2021/22	2,898,151,300	2,733,667,800	28,725,752	28,257,506	8.11%
2022/23	3,623,127,100	3,446,658,202	36,975,867	36,248,265	25.02%
2023/24	4,130,664,100	3,957,144,238	42,781,641	41,932,129	14.01%
2024/25	4,238,094,100	4,009,050,306	43,494,038	42,737,103	2.60%

¹ Net Tax Capacity includes tax increment and power line values.

² Adjusted Taxable Net Tax Capacity does not include tax increment or power line values.

LARGEST TAXPAYERS

Taxpayer	Type of Property	2024/25 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Kington Crossings of Albertville	Apartment	\$483,337	1.11%
Centerpoint Energy	Utility	421,092	0.97%
Keller-Baartman Property X LLC	Apartment	266,292	0.61%
Preserve at Albertville	Residential	261,392	0.60%
Albertville Station LLC	Commercial	254,244	0.58%
Individual	Industrial	197,604	0.45%
St. Michael Project No. 1 LLC	Apartment	196,063	0.45%
Coretrend LLC	Industrial	177,804	0.41%
Rachel Properties LLC	Commercial	163,006	0.37%
Marohn's St. Michael Market Place, Inc.	Commercial	<u>161,268</u>	<u>0.37%</u>
Total		\$2,582,102	5.94%

District's Total 2024/25 Net Tax Capacity \$43,494,038

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

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedule following)

Total G.O. debt secured by taxes and state aids² (includes the Bonds)* \$108,685,000

*Preliminary, subject to change.

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

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

Other Obligations - Cooperative District/Joint Governmental Obligations

The District is a member of Wright Technical Center No. 966 Cooperative High School ("Wright Technical Center"). On October 25, 2018, Wright Technical Center issued its Facilities Maintenance Bonds, Series 2018A, in the principal amount of \$650,000. The District has a contractual obligation to make a portion of the debt service payments along with other member districts. The allocation of the debt service payments is determined by agreement among the member school districts and calculated annually by Wright Technical Center.

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 Formula is applied against the remaining qualifying annual debt service which, in the case of the District, is expected to result in a "local share" of about 76.93% of the amount in excess of 15.74% of ANTC, but less than 26.24% of ANTC, and a "local share" of about 42.57% of the amount in excess of 26.24% of ANTC. This results in estimated total State participation of about 22.35% of total annual debt service based on the District's 2024/25 equalization calculations.

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.

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. Although the District expects to receive a small amount of Agricultural Credit in its debt service fund, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by State aid.

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	\$4,467,485,415
Multiply by 15%	<u>0.15</u>
Statutory Debt Limit	<u>\$670,122,812</u>
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	<u>(108,685,000)</u>
Unused Debt Limit*	<u><u>\$561,437,812</u></u>

*Preliminary, subject to change.

Independent School District No. 885 (St. Michael-Albertville), Minnesota
 Schedule of Bonded Indebtedness
 General Obligation Debt Secured by Taxes
 (As of 04/09/2026)

	School Building Refunding Bonds Series 2014A		School Building Refunding Bonds Series 2015B		School Building Refunding Bonds Series 2016A		School Building Bonds Series 2017A		Refunding Bonds Series 2021A	
Dated	09/23/2014		11/24/2015		10/27/2016		04/13/2017		11/04/2021	
Amount	\$59,275,000		\$36,110,000		\$31,335,000		\$35,705,000		\$10,325,000	
Maturity	02/01		02/01		02/01		02/01		02/01	
Fiscal Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2027	3,735,000	686,100	6,075,000	182,250	3,945,000	548,400	465,000	1,190,485	0	185,400
2028	6,005,000	574,050			2,970,000	351,150	6,065,000	1,176,535	0	185,400
2029	6,370,000	393,900			3,255,000	202,650	6,320,000	933,935	0	185,400
2030	6,760,000	202,800			3,500,000	105,000	6,180,000	744,335	0	185,400
2031							7,660,000	497,135	5,275,000	185,400
2032							8,055,000	257,760	5,050,000	101,000
2033										
2034										
2035										
2036										
2037										
2038										
2039										
2040										
2041										
2042										
2043										
2044										
2045										
2046										
	22,870,000	1,856,850	6,075,000	182,250	13,670,000	1,207,200	34,745,000	4,800,185	10,325,000	1,028,000

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Independent School District No. 885 (St. Michael-Albertville), Minnesota
Schedule of Bonded Indebtedness continued
General Obligation Debt Secured by Taxes
(As of 04/09/2026)

School Building Bonds Series 2026A								
Dated	04/09/2026							
Amount	\$21,000,000*							
Maturity	02/01							
Fiscal Year Ending	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2027	410,000	762,546	14,630,000	3,555,181	18,185,181	94,055,000	13.46%	2027
2028	120,000	919,625	15,160,000	3,206,760	18,366,760	78,895,000	27.41%	2028
2029	0	913,625	15,945,000	2,629,510	18,574,510	62,950,000	42.08%	2029
2030	0	913,625	16,440,000	2,151,160	18,591,160	46,510,000	57.21%	2030
2031	0	913,625	12,935,000	1,596,160	14,531,160	33,575,000	69.11%	2031
2032	0	913,625	13,105,000	1,272,385	14,377,385	20,470,000	81.17%	2032
2033	475,000	913,625	475,000	913,625	1,388,625	19,995,000	81.60%	2033
2034	475,000	889,875	475,000	889,875	1,364,875	19,520,000	82.04%	2034
2035	475,000	866,125	475,000	866,125	1,341,125	19,045,000	82.48%	2035
2036	475,000	842,375	475,000	842,375	1,317,375	18,570,000	82.91%	2036
2037	475,000	818,625	475,000	818,625	1,293,625	18,095,000	83.35%	2037
2038	1,685,000	794,875	1,685,000	794,875	2,479,875	16,410,000	84.90%	2038
2039	1,770,000	710,625	1,770,000	710,625	2,480,625	14,640,000	86.53%	2039
2040	1,840,000	639,825	1,840,000	639,825	2,479,825	12,800,000	88.22%	2040
2041	1,915,000	566,225	1,915,000	566,225	2,481,225	10,885,000	89.98%	2041
2042	1,995,000	484,838	1,995,000	484,838	2,479,838	8,890,000	91.82%	2042
2043	2,080,000	400,050	2,080,000	400,050	2,480,050	6,810,000	93.73%	2043
2044	2,170,000	306,450	2,170,000	306,450	2,476,450	4,640,000	95.73%	2044
2045	2,270,000	208,800	2,270,000	208,800	2,478,800	2,370,000	97.82%	2045
2046	2,370,000	106,650	2,370,000	106,650	2,476,650	0	100.00%	2046
	21,000,000	13,885,633	108,685,000	22,960,118	131,645,118			

* Preliminary, subject to change.

OVERLAPPING DEBT¹

Taxing District	2024/25 Adjusted Taxable Net Tax Capacity	% In District	Total G.O. Debt²	District's Proportionate Share
County of:				
Wright	\$281,882,019	15.1613%	\$62,890,000	\$9,534,942
Cities of:				
Albertville	13,579,809	71.8708%	18,096,000	13,005,740
Hanover	6,652,507	10.0533%	945,000	95,004
Otsego	38,570,629	6.7890%	1,620,000	109,982
St. Michael	34,061,103	86.5042%	8,385,000	7,253,377
Town of:				
Monticello	6,132,465	3.68%	1,897,000	<u>69,760</u>
District's Share of Total Overlapping Debt				<u><u>\$30,068,804</u></u>

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.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value \$4,467,485,415	Debt/ Per Capita 28,766 ¹
Direct G.O. Debt Paid From Taxes and State Aids*	\$108,685,000		
Less: State Equalization Aid ²	(25,823,556)		
Tax Supported General Obligation Debt*	\$82,861,444	1.85%	\$2,880.53
District's Share of Total Overlapping Debt	\$30,068,804	0.67%	\$1,045.29
Total*	\$112,930,248	2.53%	\$3,925.82

*Preliminary, subject to change.

TAX LEVIES, COLLECTION AND RATES

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ³	Total Collected Following Year	Collected to Date	% Collected
2020/21	\$15,480,934	\$15,401,474	\$15,479,534	99.99%
2021/22	15,968,194	15,877,499	15,963,947	99.97%
2022/23	17,280,892	17,130,421	17,265,344	99.91%
2023/24	18,719,624	18,448,012	18,670,729	99.74%
2024/25	21,492,495	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.⁴ 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.

¹ Estimated 2024 population.

² Based on current State law and statistics, the State of Minnesota is estimated to pay approximately 23.76% 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 \$25,823,556.

³ This reflects the Final Levy Certification of the District after all adjustments have been made.

⁴ Second half tax payments on agricultural property are due on November 15th of each year.

TAX CAPACITY RATES¹

	2020/21	2021/22	2022/23	2023/24	2024/25
I.S.D. No. 885 (St. Michael-Albertville)	44.216%	42.436%	35.456%	32.282%	35.663%
Wright County	43.719%	43.751%	37.848%	33.737%	35.563%
City of Albertville	46.801%	46.355%	41.794%	41.954%	42.861%
City of Hanover	46.491%	43.569%	38.223%	38.015%	37.681%
City of Otsego	34.653%	34.545%	29.572%	23.109%	24.352%
City of St. Michael	35.817%	33.909%	27.132%	25.715%	26.821%
Town of Monticello ²	18.948%	17.523%	14.750%	12.659%	12.638%
EDA-St. Michael	0.712%	0.654%	0.508%	0.443%	0.440%
EDA-Hanover	1.180%	1.106%	0.879%	0.979%	0.988%

Referendum Market Value Rates:

I.S.D. No. 885 (St. Michael-Albertville)	0.15321%	0.14344%	0.13590%	0.13768%	0.16308%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Wright County.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 807, including 328 non-licensed employees and 479 licensed employees (464 of whom are teachers). The District provides education for 6,738 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.

¹ After reduction for State aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

² Representative town rate.

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
School Service Employees Local 284 (Clerical, Paraprofessionals and Food Service)	June 30, 2026
School Service Employees Local 284 (Custodial and Maintenance)	June 30, 2026
Education Minnesota	June 30, 2027
St. Michael-Albertville Principals Association	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 \$3,735,273 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	453	2,759	3,350	6,562
2022/23	433	2,808	3,336	6,577
2023/24	420	2,829	3,364	6,613
2024/25	422	2,934	3,320	6,676
2025/26	406	2,929	3,403	6,738

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2026/27	408	2,945	3,422	6,775
2027/28	410	2,961	3,440	6,811
2028/29	418	3,012	3,460	6,890

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Albertville Primary	1973	1987, 2000, 2004
Big Woods Elementary	2004	--
Fieldstone Elementary	2007	--
St. Michael Elementary	1966	1987, 1992, 2003
St. Michael-Albertville Middle East	1999	2003
St. Michael-Albertville Middle West	1992	2000, 2003, 2009
St. Michael-Albertville High School	2009	--
St. Michael-Albertville Arena Addition	--	2018
St. Michael-Albertville Community Center	1952	1991

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	\$31,650,719
Food Service	2,662,631
Community Service	1,349,167
Debt Service	18,942,549
Building/Construction	(7,321)
Trust & Agency	<u>24,584</u>
 Total Funds on Hand	 <u><u>\$54,622,329</u></u>

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	\$30,952,567	\$91,744,807	(\$94,182,296)	(\$2,437,489)	\$28,515,078
Food Service	3,197,649	5,140,230	(5,710,920)	(570,690)	2,626,959
Community Service	764,988	5,530,296	(5,714,534)	(184,238)	580,750
Debt Service	<u>4,431,279</u>	<u>18,031,535</u>	<u>(16,711,060)</u>	<u>1,320,475</u>	<u>5,751,754</u>
 Total All Funds	 <u><u>\$39,346,483</u></u>	 <u><u>\$120,446,868</u></u>	 <u><u>(\$122,318,810)</u></u>	 <u><u>(\$1,871,942)</u></u>	 <u><u>\$37,474,541</u></u>

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 2025 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING JUNE 30				
	2021 Audited	2022 Audited	2023 Audited	2024 Audited	2025 Audited
Revenues					
Local property taxes	\$5,467,647	\$5,962,035	\$5,587,605	\$6,609,888	\$7,609,982
Other local and county revenues	1,715,869	2,785,640	3,494,055	3,775,256	3,952,667
Revenue from state sources	59,392,357	62,897,284	64,452,167	70,928,941	74,754,991
Revenue from federal sources	3,069,381	2,606,045	2,167,614	2,182,552	1,468,610
Investment earnings	55,912	(138,146)	568,768	1,377,622	1,600,072
Total Revenues	<u>\$69,701,166</u>	<u>\$74,112,858</u>	<u>\$76,270,209</u>	<u>\$84,874,259</u>	<u>\$89,386,322</u>
Expenditures					
Current:					
Administration	\$1,872,678	\$1,796,964	\$1,881,393	\$1,992,852	\$2,160,028
District support services	2,076,393	1,831,869	1,979,657	2,426,310	2,205,960
Elementary and secondary regular instruction	32,296,058	34,253,366	34,577,814	37,368,141	39,164,336
Vocational education instruction	1,670,952	1,726,354	1,852,276	1,995,049	2,033,782
Special education instruction	9,709,255	12,029,946	12,845,247	14,874,143	16,149,863
Instructional support services	7,688,185	6,258,461	6,612,780	7,825,661	8,858,379
Pupil support services	4,708,197	4,895,155	5,122,050	5,537,640	6,741,922
Sites and buildings	6,668,218	7,147,659	7,652,852	7,119,204	8,237,859
Fiscal and other fixed cost programs	263,111	303,487	406,697	491,716	586,547
Community service	0	0	0	5,823	12,579
Debt service	81,282	211,785	214,087	157,285	61,584
Total Expenditures	<u>\$67,034,329</u>	<u>\$70,455,046</u>	<u>\$73,144,853</u>	<u>\$79,793,824</u>	<u>\$86,212,839</u>
Excess of revenues over (under) expenditures	(\$333,163)	\$3,657,812	\$3,125,356	\$5,080,435	\$3,173,483
Other Financing Sources (Uses)					
Leases issued	\$0	\$0	\$0	\$260,656	\$0
Insurance recovery	0	228,052	43,158	0	0
Total Other Financing Sources (Uses)	0	228,052	43,158	260,656	0
Net changes in Fund Balances	(\$333,163)	\$3,885,864	\$3,168,514	\$5,341,091	\$3,173,483
General Fund Balance July 1	\$15,716,778	\$15,383,615	\$19,269,479	\$22,437,993	\$27,779,084
Change in accounting principle	0	0	0	0	0
General Fund Balance June 30	\$15,383,615	\$19,269,479	\$22,437,993	\$27,779,084	\$30,952,567
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	\$101,264	\$95,691	\$122,867	\$151,060	\$168,782
Restricted	3,208,716	4,168,396	5,692,999	6,444,096	7,135,639
Assigned	2,119,199	1,022,884	1,027,095	2,352,675	5,152,600
Unassigned	9,954,436	13,982,508	15,595,032	18,831,253	18,495,546
Total	<u>\$15,383,615</u>	<u>\$19,269,479</u>	<u>\$22,437,993</u>	<u>\$27,779,084</u>	<u>\$30,952,567</u>

GENERAL INFORMATION

LOCATION

The District, with a 2020 U.S. Census population of 24,992, and a 2024 population estimate of 28,766, and comprising an area of 40.25 square miles, is located approximately 25 miles northwest of St. Paul, Minnesota.

LARGER EMPLOYERS¹

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
I.S.D. No. 885 (St. Michael-Albertville)	Elementary and secondary education	807
J & B Wholesale Distributor, Inc.	Wholesale meat distributor	615
PCiRoads	Heavy civil construction company	397
Rachel Contracting	Civil construction company	250
Coborn's	Grocery store	198
Advance Volumetric Alliance, LLC	Volumetric off-site building manufacturer	156
Oldcastle Glass Group	Glass wholesale and manufacturer	150
Cub Foods	Grocery store	145
B&D Plumbing & Heating	Plumbing and HVAC Company	139
Marksman Metals Company, Inc.	Metal products manufacturer	100

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

U.S. CENSUS DATA

Population Trend: The District

2010 U.S. Census population	22,543
2020 U.S. Census population	24,992
Percent of Change 2010 - 2020	10.86%
2024 State Demographer Estimate	28,766

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.

Income and Age Statistics

	The District	Wright County	State of Minnesota	United States
2024 per capita income	\$53,678	\$46,650	\$48,237	\$44,673
2024 median household income	\$132,451	\$107,209	\$89,062	\$80,734
2024 median family income	\$142,016	\$126,550	\$113,993	\$99,999
2024 median gross rent	\$1,428	\$1,288	\$1,280	\$1,413
2024 median value owner occupied units	\$374,600	\$358,900	\$329,300	\$332,700
2024 median age	36.8 yrs.	37.6 yrs.	38.8 yrs.	38.9 yrs.

	State of Minnesota	United States
District % of 2024 per capita income	111.28%	120.16%
District % of 2024 median family income	124.58%	142.02%

Source: 2010 and 2020 Census of Population and Housing, and 2024 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.

Year	<u>Average Employment</u>		<u>Average Unemployment</u>	
	Wright County	Wright County	Wright County	State of Minnesota
2021	76,629	3.2%	3.7%	
2022	80,222	2.3%	2.5%	
2023	82,197	2.7%	2.8%	
2024	82,473	3.0%	3.0%	
2025, December	81,753	4.5%	4.3%	

Source: Minnesota Department of Employment and Economic Development.

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. 885
ST. MICHAEL – ALBERTVILLE SCHOOLS
ALBERTVILLE, MINNESOTA

Financial Statements
and Supplementary Information

Year Ended
June 30, 2025



Certified Public Accountants Business Consultants

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INDEPENDENT SCHOOL DISTRICT NO. 885

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INTRODUCTORY SECTION

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INDEPENDENT SCHOOL DISTRICT NO. 885

School Board and Administration
Year Ended June 30, 2025

SCHOOL BOARD

	<u>Board Position</u>
Drew Scherber	Chairperson
Hollee Saville	Vice Chairperson
Tim Lewis	Treasurer
Carol Steffens	Clerk
Taylor Klemmensen	Director
Travis Weber	Director

ADMINISTRATION

	<u>Position</u>
Ann-Marie Foucault, Ph.D.	Superintendent
Kris Crocker	Executive Director of Business Services
Doug Birk	Executive Director of Administrative Services

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 885
Albertville, 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. 885 (the District) 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 District as of June 30, 2025, and the respective changes in financial position, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINIONS

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(continued)

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 District's ability to continue as a going concern for 12 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 judgment 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 judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

(continued)

REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by 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 RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information as described in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District. 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 supplementary information and the UFARS 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 introductory and other district information sections, 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.

(continued)

PRIOR YEAR COMPARATIVE INFORMATION

Malloy, Montague, Karnowski, Radosevich & Co., P.A. have previously audited the District's 2024 financial statements, and expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in their report dated November 21, 2024. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 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, 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.

Respectfully submitted,

A handwritten signature in cursive script that reads "LB Carlson, LLP".

LB CARLSON, LLP
Minneapolis, Minnesota

November 20, 2025

INDEPENDENT SCHOOL DISTRICT NO. 885

Management's Discussion and Analysis
Year Ended June 30, 2025

This section of Independent School District No. 885's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2025. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2025, by \$4,671,556 (net position).
- Government-wide revenues for the year totaled \$118,424,187 and were \$13,958,911 more than expenses of \$104,465,276.
- The District's governmental funds reported combined fund balances of \$39,346,483 at year-end, an increase of \$3,385,294 from the prior year.
- The General Fund's total fund balance increased \$3,173,483 during the year to \$30,952,567 as of June 30, 2025, compared to a \$1,269,271 decrease projected in the final budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;
- Management's discussion and analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Supplementary information consisting of combining and individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (Statement of Net Position and Statement of Activities) 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, deferred outflows of resources, liabilities, and deferred inflows of resources, except for the fiduciary funds. 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 government-wide financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*—focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service Special Revenue and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called "nonmajor" funds. Detailed financial information for nonmajor funds can be found in the supplementary information section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with Minnesota statutory requirements and accounting principles generally accepted in the United States of America. Some funds are required by state law and by bond covenants. The District can establish other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The District maintains the following kinds of funds:

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 fund financial statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to other organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 is a summarized view of the District's Statement of Net Position:

	2025	2024
Assets		
Current and other assets	\$ 71,161,872	\$ 64,231,089
Capital assets, net of depreciation and amortization	119,384,947	124,050,767
Total assets	\$ 190,546,819	\$ 188,281,856
Deferred outflows of resources		
Bond refunding deferments	\$ 1,220,372	\$ 1,491,565
OPEB plan deferments	906,230	1,024,715
Pension plan deferments	12,781,045	13,295,787
Total deferred outflows of resources	\$ 14,907,647	\$ 15,812,067
Liabilities		
Current and other liabilities	\$ 10,968,811	\$ 10,437,268
Long-term liabilities, including due within one year	152,767,076	178,205,129
Total liabilities	\$ 163,735,887	\$ 188,642,397
Deferred inflows of resources		
Bond refunding deferments	\$ 34,884	\$ 137,860
OPEB plan deferments	993,305	1,202,009
Pension plan deferments	14,817,253	4,837,036
Property taxes levied for subsequent year	21,109,801	18,447,086
Lease revenue for subsequent years	91,780	114,890
Total deferred inflows of resources	\$ 37,047,023	\$ 24,738,881
Net position		
Net investment in capital assets	\$ 15,358,068	\$ 6,445,657
Restricted	14,105,228	13,064,437
Unrestricted	(24,791,740)	(28,797,449)
Total net position	\$ 4,671,556	\$ (9,287,355)

The District's financial position is the product of many factors. For example, determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation and amortization. Differences in estimated useful lives and capitalization policies may produce a significant difference in the calculated amounts. Another major factor in determining net position as compared to fund balances are the liabilities for long-term compensated absences, pensions, and other post-employment benefits (OPEB), which impact unrestricted net position.

The increase in net investment in capital assets is due to the relationship between the rate at which the capital assets are depreciated and amortized versus the rate at which the related debt is repaid. Increases in net position restricted for capital asset acquisition, food service, debt service, and other purposes were the main factors in the overall increase in restricted net position. Changes in the District's proportionate share of two state-wide pension plans contributed to the change in deferred outflows of resources, long-term liabilities, deferred inflows of resources, and unrestricted net position. Long-term liabilities also decreased due to scheduled debt principal payments and premium amortization, with no new bond issues during the year. Positive operating results in the General Fund also increased unrestricted net position.

Table 2 presents a summarized version of the District’s Statement of Activities:

Table 2		
Summary Statement of Activities		
for the Years Ended June 30, 2025 and 2024		
	2025	2024
Revenues		
Program revenues		
Charges for services	\$ 7,494,755	\$ 7,166,001
Operating grants and contributions	25,906,841	24,055,772
Capital grants and contributions	2,524,791	2,469,246
General revenues		
Property taxes	19,020,169	17,453,971
General grants and aid	61,183,471	59,787,829
Other	28,330	45,709
Investment earnings	2,265,830	1,994,496
Total revenues	118,424,187	112,973,024
Expenses		
Administration	2,174,287	1,902,425
District support services	2,232,573	2,285,519
Elementary and secondary regular instruction	38,860,529	35,432,880
Vocational education instruction	2,041,852	1,914,310
Special education instruction	16,085,299	14,329,786
Instructional support services	9,091,456	7,308,964
Pupil support services	6,472,068	5,430,188
Sites and buildings	13,054,435	12,601,527
Fiscal and other fixed cost programs	586,547	491,871
Food service	5,468,303	4,855,405
Community service	5,666,404	5,090,194
Interest and fiscal charges	2,731,523	3,148,687
Total expenses	104,465,276	94,791,756
Change in net position	13,958,911	18,181,268
Net position – beginning	(9,287,355)	(27,468,623)
Net position – ending	\$ 4,671,556	\$ (9,287,355)

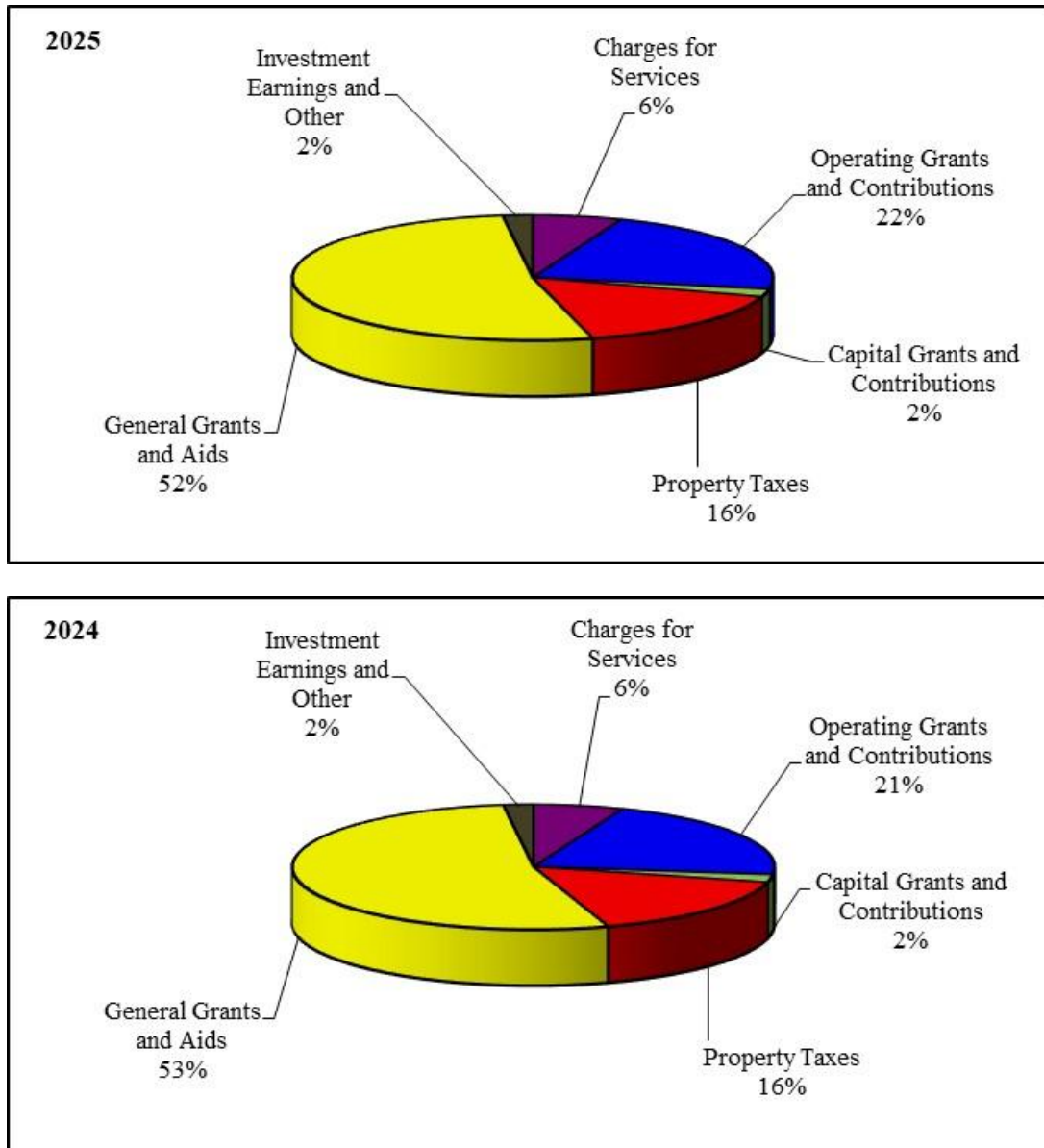
This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation and amortization expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Total governmental activities revenues increased \$5,451,163 (4.8 percent) from the previous year. Operating grants and contributions increased \$1,851,069, mainly due to increases in state special education and child nutrition funding. Property taxes increased \$1,566,198, due to an increase in the District’s certified tax levy. General grants and aids increased \$1,395,642, mainly due to an increase in the state general education basic formula.

Total governmental activities expenses increased \$9,673,520 (10.2 percent) from the previous year. Increases in elementary and secondary regular instruction, special education instruction, instructional support services, and pupil support services were mainly the result of additional positions, increased wages, higher transportation costs, and changes in state-wide pension plan expenses.

Figure A shows further analysis of these revenue sources:

Figure A – Sources of Revenues for Fiscal Years 2025 and 2024



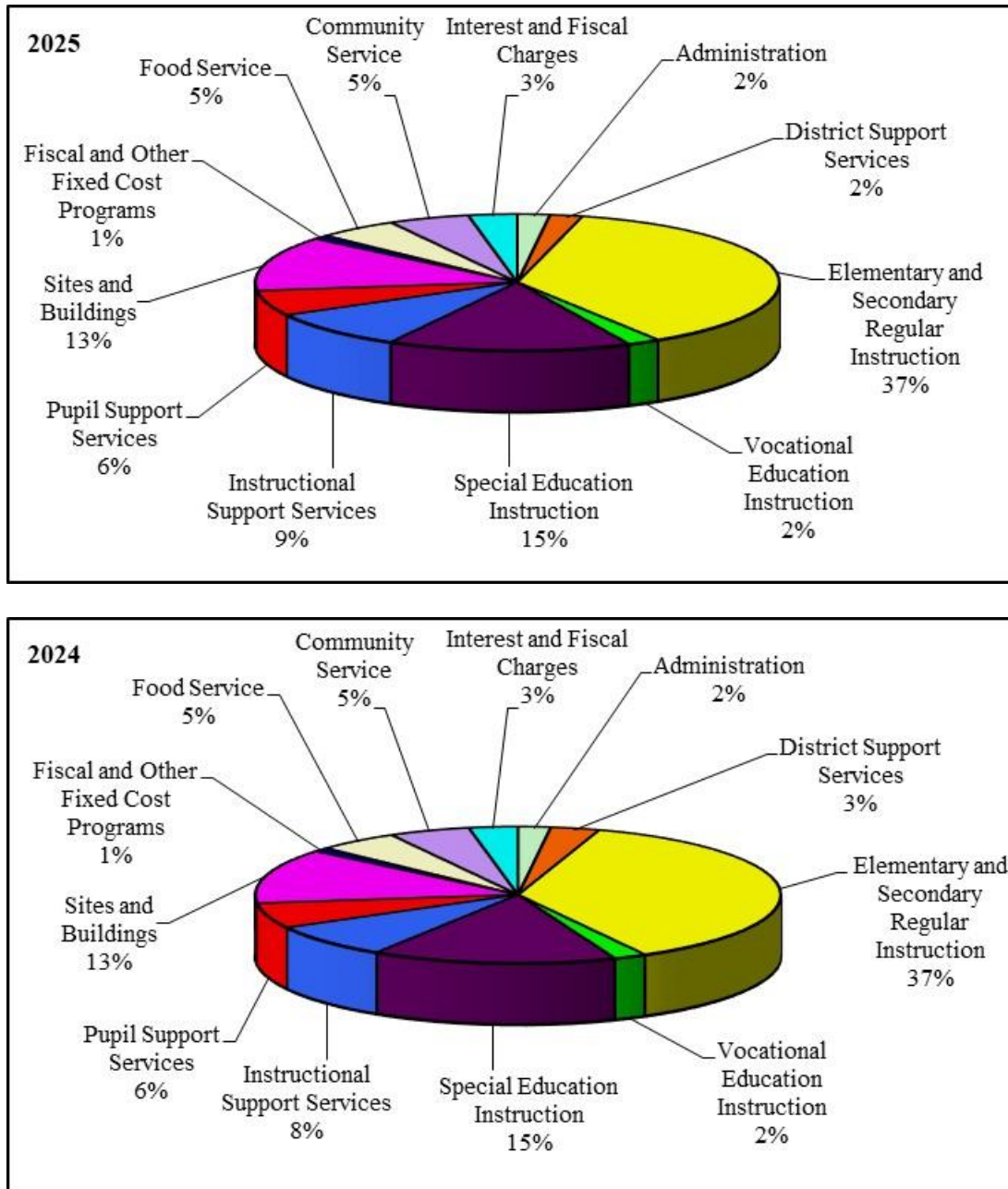
The largest share of the District’s revenue is received from the state, including the general education aid formula and most of the operating grants.

Property taxes are generally the next largest source of funding. The level of revenue property tax sources provides depend not only on district taxpayers by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

Operating grants and contributions increased, due to the aforementioned legislative increases to state special education and child nutrition funding.

Figure B shows further analysis of the expense functions:

Figure B – Expenses for Fiscal Years 2025 and 2024



The District's expenses are predominately related to educating students. Programs (or functions), such as elementary and secondary regular instruction, vocational education instruction, and special education instruction are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

The graphs above reflect a relatively consistent program cost pattern over the last two fiscal years, with a small percentage increase in current year instructional support services spending offset by a decrease in district support services, as compared to the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances of each of the District's governmental funds:

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Major funds			
General Fund	\$ 30,952,567	\$ 27,779,084	\$ 3,173,483
Debt Service	4,431,279	3,848,672	582,607
Nonmajor funds			
Food Service Special Revenue	3,197,649	3,177,316	20,333
Community Service Special Revenue	<u>764,988</u>	<u>1,156,117</u>	<u>(391,129)</u>
 Total governmental funds	 <u>\$ 39,346,483</u>	 <u>\$ 35,961,189</u>	 <u>\$ 3,385,294</u>

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance that has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's School Board.

On June 30, 2025, the District's governmental funds reported combined fund balances of \$39,346,483. Approximately 47.0 percent of this amount (\$18,495,546) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is: 1) not in spendable form (\$200,765), 2) restricted for particular purposes (\$15,497,572), or 3) assigned for particular purposes (\$5,152,600).

Total fund balances increased \$3,385,294 from current year operations, with the largest increases occurring in the General Fund and the Debt Service Fund.

ANALYSIS OF THE GENERAL FUND

Table 4 summarizes the amendments to the General Fund budget:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Change</u>	<u>Percent Change</u>
Revenues and other financing sources	<u>\$ 84,345,428</u>	<u>\$ 85,931,433</u>	<u>\$ 1,586,005</u>	<u>1.9 %</u>
Expenditures	<u>\$ 85,046,114</u>	<u>\$ 87,200,704</u>	<u>\$ 2,154,590</u>	<u>2.5 %</u>

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District amended the budget for known significant changes in circumstances, such as: updated enrollment estimates, legislative changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, insurance premium changes, special education tuition changes, or for new debt issued.

Table 5 summarizes the operating results of the General Fund:

	<u>2025 Actual</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenues and other financing sources	\$ 89,386,322	\$ 3,454,889	4.0%	\$ 4,251,407	5.0%
Expenditures	<u>86,212,839</u>	\$ (987,865)	(1.1%)	\$ 6,419,015	8.0%
Net change in fund balances	<u>\$ 3,173,483</u>				

The fund balance of the General Fund increased \$3,173,483 from current year operations, compared to a decrease of \$1,269,271 projected in the final budget.

General Fund revenues and other financing sources for 2025 increased \$4,251,407 (5.0 percent), compared to the prior year, and were \$3,454,889 (4.0 percent) over budget. Increases in general education and special education state aids, property taxes, and investment earnings contributed to the overall increase in revenue. The variance from budget was spread across all budget categories, with the largest variances in state sources, investment earnings, and other local revenue, due to the District budgeting conservatively for state special education aid and unpredictable revenues such as student fees, event admissions, rent, and donations. Investment earnings exceeded budget due to favorable performance in the investment market.

Total General Fund expenditures increased \$6,419,015 (8.0 percent) over the prior year, but were \$987,865 (1.1 percent) under budget. Expenditure increases were mainly for salaries and benefits due to contractual wage and benefit increases and additional positions, and increased contracted service costs for pupil support services and sites and buildings. The variance from budget was spread across all expenditure types, including salaries and benefits due to difficulty filling some open positions in a challenging labor market, and supplies and materials due to a delay in planned curriculum purchases for elementary and secondary regular instruction.

COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS

Debt Service Fund

Debt Service Fund revenues exceeded expenditures by \$582,607 in the current year, compared to a \$766,110 fund balance increase anticipated in the budget. The variance was primarily due to receiving less revenue from state aids than projected. The funding of the Debt Service Fund is largely controlled with each individual debt obligation's financing plan. The remaining fund balance of \$4,431,279 as of June 30, 2025 is available for meeting future debt service obligations.

Nonmajor Funds

Food Service Special Revenue Fund

Food Service Special Revenue Fund revenues exceeded expenditures for the year, increasing fund balance by \$20,333, compared to a planned fund balance decrease of \$617,904. Revenues decreased from prior year in total due to one-time supply chain assistance grants received in the prior year. Revenues were over budget by \$394,211, primarily due to higher than anticipated state and federal sources due to an increase in participation. Expenditures increased compared to the prior year, mainly in personnel costs and administrative cost chargebacks in fiscal 2025, but were under budget by \$244,026, due to lower equipment purchases than projected.

Community Service Special Revenue Fund

The Community Service Special Revenue Fund ended the year with expenditures exceeding revenues, decreasing fund balance by \$391,129, compared to a budgeted fund balance decrease of \$254,128. Revenue was under budget by \$115,249, mainly in other sources, primarily tuition and fees. Expenditures increased \$524,886 from the prior year, primarily in salaries, benefits, and purchased services, and were over budget by \$21,752, mainly in salaries.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation and amortization expense for fiscal years ended June 30, 2025 and 2024:

Table 6 Capital Assets			
	<u>2025</u>	<u>2024</u>	<u>Change</u>
Land	\$ 13,680,960	\$ 13,680,960	\$ —
Land improvements	1,292,482	1,507,514	(215,032)
Buildings and improvements	211,462,275	211,373,821	88,454
Furniture and equipment	10,526,519	9,973,646	552,873
Equipment leases	260,656	295,862	(35,206)
Less accumulated depreciation/amortization	<u>(117,837,945)</u>	<u>(112,781,036)</u>	<u>(5,056,909)</u>
Total	<u><u>\$ 119,384,947</u></u>	<u><u>\$ 124,050,767</u></u>	<u><u>\$ (4,665,820)</u></u>
Depreciation/amortization expense	<u><u>\$ 6,342,392</u></u>	<u><u>\$ 6,649,439</u></u>	<u><u>\$ (307,047)</u></u>

By the end of fiscal year 2025, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 6).

The District defines capital assets as those with an initial, individual cost of \$5,000 or more.

Additional details about capital assets can be found in Note 4 of the notes to basic financial statements.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities with changes from the prior year:

	<u>2025</u>	<u>2024</u>	<u>Change</u>
General obligation bonds payable	\$ 101,070,000	\$ 113,720,000	\$ (12,650,000)
Unamortized premium/discount	3,976,254	5,021,783	(1,045,529)
Lease liability	166,113	217,032	(50,919)
Net pension liability	43,079,377	55,372,257	(12,292,880)
Total OPEB liability	3,735,273	3,562,521	172,752
Compensated absences payable	<u>740,059</u>	<u>311,536</u>	<u>428,523</u>
Total	<u>\$ 152,767,076</u>	<u>\$ 178,205,129</u>	<u>\$ (25,438,053)</u>

The changes in general obligation bonds payable and unamortized premium/discount in the table above are primarily due to principal payments and amortization during fiscal year 2025 as planned in the approved repayment schedules, with no new debt issued.

The difference in the net pension liability reflects the changes in the District's proportionate share of two state-wide pension obligations administered by the Public Employees Retirement Association and the Teachers Retirement Association.

The state limits the amount of general obligation debt the District can issue to 15.0 percent of the market value of all taxable property within the District's corporate limits (see Table 8).

District's taxable market value	\$ 3,865,671,300
Limit rate	<u>15.0%</u>
Legal debt limit	<u>\$ 579,850,695</u>

Additional details of the District's long-term debt activity can be found in Note 5 of the notes to basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The Legislature has added \$200, or 2.75 percent, per pupil to the basic general education funding formula for fiscal year 2026.

The amount of funding a district receives is also dependent on the number of students it serves, meaning attracting and retaining students is critical to the District's financial well-being.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our 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 these statements, or need additional financial information, contact the Business Services Department at (763) 497-3180. The address is: Independent School District No. 885, 11343 50th Street Northeast, Albertville, Minnesota 55301.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Net Position
as of June 30, 2025
(With Partial Comparative Information as of June 30, 2024)

	Governmental Activities	
	2025	2024
Assets		
Cash and temporary investments	\$ 49,134,013	\$ 44,503,989
Receivables		
Current taxes	10,293,020	8,915,844
Delinquent taxes	72,627	62,418
Accounts and interest	582,824	237,497
Due from other governmental units	9,864,235	9,448,895
Lease	91,780	114,890
Inventory	31,983	45,850
Prepaid items	168,782	151,060
Equity interest in joint ventures	922,608	750,646
Capital assets		
Not depreciated or amortized	13,680,960	13,680,960
Depreciated or amortized, net	105,703,987	110,369,807
Total capital assets, net	<u>119,384,947</u>	<u>124,050,767</u>
Total assets	190,546,819	188,281,856
Deferred outflows of resources		
Bond refunding deferments	1,220,372	1,491,565
OPEB plan deferments	906,230	1,024,715
Pension plan deferments	12,781,045	13,295,787
Total deferred outflows of resources	<u>14,907,647</u>	<u>15,812,067</u>
Total assets and deferred outflows of resources	<u>\$ 205,454,466</u>	<u>\$ 204,093,923</u>
Liabilities		
Salaries payable	\$ 6,106,078	\$ 5,633,069
Accounts and contracts payable	2,898,544	2,656,859
Accrued interest payable	1,350,238	1,542,408
Due to other governmental units	114,472	128,422
Unearned revenue	499,479	476,510
Long-term liabilities		
Due within one year	13,677,939	13,176,571
Due in more than one year	139,089,137	165,028,558
Total long-term liabilities	<u>152,767,076</u>	<u>178,205,129</u>
Total liabilities	163,735,887	188,642,397
Deferred inflows of resources		
Bond refunding deferments	34,884	137,860
OPEB plan deferments	993,305	1,202,009
Pension plan deferments	14,817,253	4,837,036
Property taxes levied for subsequent year	21,109,801	18,447,086
Lease revenue for subsequent years	91,780	114,890
Total deferred inflows of resources	<u>37,047,023</u>	<u>24,738,881</u>
Net position		
Net investment in capital assets	15,358,068	6,445,657
Restricted for		
Capital asset acquisition	3,906,883	3,848,029
Food service	3,179,776	3,168,851
Community service	664,781	1,106,601
Debt service	3,125,032	2,344,889
Other purposes	3,228,756	2,596,067
Unrestricted	(24,791,740)	(28,797,449)
Total net position	<u>4,671,556</u>	<u>(9,287,355)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 205,454,466</u>	<u>\$ 204,093,923</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Activities
Year Ended June 30, 2025
(With Partial Comparative Information for the Year Ended June 30, 2024)

Functions/Programs	2025				2024	
	Expenses	Program Revenues			Net (Expense)	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	Revenue and Changes in Net Position
				Governmental Activities	Governmental Activities	
Governmental activities						
Administration	\$ 2,174,287	\$ -	\$ -	\$ -	\$ (2,174,287)	\$ (1,900,996)
District support services	2,232,573	-	-	6,641	(2,225,932)	(2,259,238)
Elementary and secondary regular instruction	38,860,529	1,658,155	4,140,434	275,567	(32,786,373)	(29,164,944)
Vocational education instruction	2,041,852	-	151,714	9,916	(1,880,222)	(1,739,402)
Special education instruction	16,085,299	393,106	13,112,619	972	(2,578,602)	(2,528,910)
Instructional support services	9,091,456	77,798	2,173,204	938,062	(5,902,392)	(4,703,395)
Pupil support services	6,472,068	243,869	454,572	9,173	(5,764,454)	(4,723,308)
Sites and buildings	13,054,435	579,990	32,237	1,284,460	(11,157,748)	(10,871,134)
Fiscal and other fixed cost programs	586,547	-	-	-	(586,547)	(491,871)
Food service	5,468,303	436,327	4,953,466	-	(78,510)	721,586
Community service	5,666,404	4,105,510	888,595	-	(672,299)	(290,438)
Interest and fiscal charges	2,731,523	-	-	-	(2,731,523)	(3,148,687)
Total governmental activities	\$ 104,465,276	\$ 7,494,755	\$ 25,906,841	\$ 2,524,791	(68,538,889)	(61,100,737)
General revenues						
Taxes						
Property taxes for general purposes					7,614,971	6,614,792
Property taxes for community service					216,847	292,235
Property taxes for debt service					11,188,351	10,546,944
General grants and aids					61,183,471	59,787,829
Other general revenues					28,330	45,709
Investment earnings					2,265,830	1,994,496
Total general revenues					82,497,800	79,282,005
Change in net position					13,958,911	18,181,268
Net position – beginning					(9,287,355)	(27,468,623)
Net position – ending					\$ 4,671,556	\$ (9,287,355)

INDEPENDENT SCHOOL DISTRICT NO. 885

Balance Sheet
 Governmental Funds
 as of June 30, 2025
 (With Partial Comparative Information as of June 30, 2024)

	General Fund	Debt Service Fund	Nonmajor Funds
Assets			
Cash and temporary investments	\$ 34,050,907	\$ 10,364,112	\$ 4,718,994
Receivables			
Current taxes	4,256,532	5,924,773	111,715
Delinquent taxes	27,641	43,991	995
Accounts and interest	570,085	338	12,401
Due from other governmental units	9,133,704	540,433	190,098
Lease	91,780	-	-
Inventory	-	-	31,983
Prepaid items	168,782	-	-
	<u>\$ 48,299,431</u>	<u>\$ 16,873,647</u>	<u>\$ 5,066,186</u>
Liabilities			
Salaries payable	\$ 5,865,523	\$ -	\$ 240,555
Accounts and contracts payable	2,768,029	-	130,515
Due to other governmental units	110,610	-	3,862
Unearned revenue	6,880	-	492,599
Total liabilities	<u>8,751,042</u>	<u>-</u>	<u>867,531</u>
Deferred inflows of resources			
Property taxes levied for subsequent year	8,476,401	12,398,377	235,023
Lease revenue for subsequent years	91,780	-	-
Unavailable revenue – delinquent taxes	27,641	43,991	995
Total deferred inflows of resources	<u>8,595,822</u>	<u>12,442,368</u>	<u>236,018</u>
Fund balances			
Nonspendable	168,782	-	31,983
Restricted	7,135,639	4,431,279	3,930,654
Assigned	5,152,600	-	-
Unassigned	18,495,546	-	-
Total fund balances	<u>30,952,567</u>	<u>4,431,279</u>	<u>3,962,637</u>
	<u>\$ 48,299,431</u>	<u>\$ 16,873,647</u>	<u>\$ 5,066,186</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 48,299,431</u>	<u>\$ 16,873,647</u>	<u>\$ 5,066,186</u>

Total Governmental Funds	
2025	2024
\$ 49,134,013	\$ 44,503,989
10,293,020	8,915,844
72,627	62,418
582,824	237,497
9,864,235	9,448,895
91,780	114,890
31,983	45,850
168,782	151,060
<u>\$ 70,239,264</u>	<u>\$ 63,480,443</u>
\$ 6,106,078	\$ 5,633,069
2,898,544	2,656,859
114,472	128,422
499,479	476,510
<u>9,618,573</u>	<u>8,894,860</u>
21,109,801	18,447,086
91,780	114,890
72,627	62,418
<u>21,274,208</u>	<u>18,624,394</u>
200,765	196,910
15,497,572	14,580,351
5,152,600	2,352,675
18,495,546	18,831,253
<u>39,346,483</u>	<u>35,961,189</u>
<u>\$ 70,239,264</u>	<u>\$ 63,480,443</u>

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INDEPENDENT SCHOOL DISTRICT NO. 885

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2025

(With Partial Comparative Information as of June 30, 2024)

	<u>2025</u>	<u>2024</u>
Total fund balances – governmental funds	\$ 39,346,483	\$ 35,961,189
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Governmental funds do not report an asset for equity interest in joint ventures.	922,608	750,646
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	237,222,892	236,831,803
Accumulated depreciation and amortization	(117,837,945)	(112,781,036)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(101,070,000)	(113,720,000)
Unamortized premium/discount	(3,976,254)	(5,021,783)
Lease liability	(166,113)	(217,032)
Net pension liability	(43,079,377)	(55,372,257)
Total OPEB liability	(3,735,273)	(3,562,521)
Compensated absences payable	(740,059)	(311,536)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(1,350,238)	(1,542,408)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows of resources – bond refunding deferments	1,220,372	1,491,565
Deferred outflows of resources – OPEB plan deferments	906,230	1,024,715
Deferred outflows of resources – pension plan deferments	12,781,045	13,295,787
Deferred inflows of resources – bond refunding deferments	(34,884)	(137,860)
Deferred inflows of resources – OPEB plan deferments	(993,305)	(1,202,009)
Deferred inflows of resources – pension plan deferments	(14,817,253)	(4,837,036)
Deferred inflows of resources – unavailable revenue – delinquent taxes	72,627	62,418
Total net position – governmental activities	<u>\$ 4,671,556</u>	<u>\$ (9,287,355)</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2025
 (With Partial Comparative Information for the Year Ended June 30, 2024)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Funds</u>
Revenue			
Local sources			
Property taxes	\$ 7,609,982	\$ 11,182,985	\$ 216,993
Investment earnings	1,600,072	435,633	230,125
Other	3,952,667	-	4,718,447
State sources	74,754,991	5,404,329	3,971,754
Federal sources	1,468,610	-	1,681,463
Total revenue	<u>89,386,322</u>	<u>17,022,947</u>	<u>10,818,782</u>
Expenditures			
Current			
Administration	2,160,028	-	-
District support services	2,205,960	-	-
Elementary and secondary regular instruction	39,164,336	-	-
Vocational education instruction	2,033,782	-	-
Special education instruction	16,149,863	-	-
Instructional support services	8,858,379	-	-
Pupil support services	6,741,922	-	-
Sites and buildings	8,237,859	-	-
Fiscal and other fixed cost programs	586,547	-	-
Food service	-	-	5,156,321
Community service	12,579	-	5,603,717
Capital outlay	-	-	429,540
Debt service			
Principal	50,919	12,650,000	-
Interest and fiscal charges	10,665	3,790,340	-
Total expenditures	<u>86,212,839</u>	<u>16,440,340</u>	<u>11,189,578</u>
Excess (deficiency) of revenue over expenditures	3,173,483	582,607	(370,796)
Other financing sources			
Leases issued	-	-	-
Net change in fund balances	3,173,483	582,607	(370,796)
Fund balances			
Beginning of year	<u>27,779,084</u>	<u>3,848,672</u>	<u>4,333,433</u>
End of year	<u>\$ 30,952,567</u>	<u>\$ 4,431,279</u>	<u>\$ 3,962,637</u>

Total Governmental Funds	
2025	2024
\$ 19,009,960	\$ 17,441,200
2,265,830	1,994,496
8,671,114	8,489,353
84,131,074	80,630,570
3,150,073	4,176,406
<u>117,228,051</u>	<u>112,732,025</u>
2,160,028	1,992,852
2,205,960	2,426,310
39,164,336	37,368,141
2,033,782	1,995,049
16,149,863	14,874,143
8,858,379	7,825,661
6,741,922	5,537,640
8,237,859	7,119,204
586,547	491,716
5,156,321	4,696,398
5,616,296	5,115,744
429,540	175,657
12,700,919	12,453,931
3,801,005	4,294,419
<u>113,842,757</u>	<u>106,366,865</u>
3,385,294	6,365,160
—	260,656
3,385,294	6,625,816
<u>35,961,189</u>	<u>29,335,373</u>
<u>\$ 39,346,483</u>	<u>\$ 35,961,189</u>

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INDEPENDENT SCHOOL DISTRICT NO. 885

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2025
(With Partial Comparative Information for the Year Ended June 30, 2024)

	<u>2025</u>	<u>2024</u>
Total net change in fund balances – governmental funds	\$ 3,385,294	\$ 6,625,816
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds do not report income or loss on an investment in a joint venture.	171,962	163,129
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation or amortization expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	1,711,778	1,583,658
Depreciation and amortization expense	(6,342,392)	(6,649,439)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(35,206)	(10,659)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.	–	(260,656)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	12,650,000	12,310,000
Financed purchases payable	–	78,533
Lease liability	50,919	81,121
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	192,170	205,056
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	1,045,529	1,108,893
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability	12,292,880	2,223,618
Total OPEB liability	(172,752)	(812,675)
Compensated absences payable	(428,523)	(16,560)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows of resources – bond refunding deferments	(271,193)	(271,193)
Deferred outflows of resources – OPEB plan deferments	(118,485)	575,806
Deferred outflows of resources – pension plan deferments	(514,742)	(4,991,037)
Deferred inflows of resources – bond refunding deferments	102,976	102,976
Deferred inflows of resources – OPEB plan deferments	208,704	241,460
Deferred inflows of resources – pension plan deferments	(9,980,217)	5,880,650
Deferred inflows of resources – unavailable revenue – delinquent taxes	10,209	12,771
Change in net position – governmental activities	<u>\$ 13,958,911</u>	<u>\$ 18,181,268</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 7,490,500	\$ 7,589,462	\$ 7,609,982	\$ 20,520
Investment earnings	750,000	900,000	1,600,072	700,072
Other	3,001,278	3,256,961	3,952,667	695,706
State sources	71,810,444	72,851,810	74,754,991	1,903,181
Federal sources	1,273,206	1,313,200	1,468,610	155,410
Total revenue	<u>84,325,428</u>	<u>85,911,433</u>	<u>89,386,322</u>	<u>3,474,889</u>
Expenditures				
Current				
Administration	2,083,392	2,193,119	2,160,028	(33,091)
District support services	2,289,982	2,248,436	2,205,960	(42,476)
Elementary and secondary regular instruction	39,844,100	39,578,014	39,164,336	(413,678)
Vocational education instruction	2,135,845	2,054,413	2,033,782	(20,631)
Special education instruction	15,827,172	16,292,153	16,149,863	(142,290)
Community education services	5,234	16,500	12,579	(3,921)
Instructional support services	7,473,359	8,985,342	8,858,379	(126,963)
Pupil support services	6,272,630	6,787,997	6,741,922	(46,075)
Sites and buildings	8,420,316	8,343,146	8,237,859	(105,287)
Fiscal and other fixed cost programs	632,500	640,000	586,547	(53,453)
Debt service				
Principal	61,584	50,919	50,919	–
Interest and fiscal charges	–	10,665	10,665	–
Total expenditures	<u>85,046,114</u>	<u>87,200,704</u>	<u>86,212,839</u>	<u>(987,865)</u>
Excess (deficiency) of revenue over expenditures	(720,686)	(1,289,271)	3,173,483	4,462,754
Other financing sources				
Insurance recovery	<u>20,000</u>	<u>20,000</u>	<u>–</u>	<u>(20,000)</u>
Net change in fund balances	<u>\$ (700,686)</u>	<u>\$ (1,269,271)</u>	<u>3,173,483</u>	<u>\$ 4,442,754</u>
Fund balances				
Beginning of year			<u>27,779,084</u>	
End of year			<u>\$ 30,952,567</u>	

INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Fiduciary Net Position
as of June 30, 2025

	<u>Custodial Fund</u>
Assets	
Cash and temporary investments	\$ 38,743
Liabilities	
Salaries payable	1,810
Accounts and contracts payable	<u>798</u>
Total liabilities	<u>2,608</u>
Net position	
Restricted for Family Youth Community Connections	<u>\$ 36,135</u>

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2025

	<u>Custodial Fund</u>
Additions	
Contributions	\$ 311,344
Investment earnings	<u>17</u>
Total additions	311,361
Deductions	
Program expenses	<u>309,981</u>
Change in net position	1,380
Net position	
Beginning of year	<u>34,755</u>
End of year	<u>\$ 36,135</u>

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INDEPENDENT SCHOOL DISTRICT NO. 885

Notes to Basic Financial Statements
as of June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 885 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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 accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate 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 depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

The District currently participates in two joint ventures, which are a legal district or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility.

- 1. Wright Technical Center** – The District entered into a joint powers agreement in February 1998 with Wright Technical Center (WTC) No. 966, a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities. The addition was financed through lease agreements. Each participating district annually authorizes a lease levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts are also apportioned operating costs and continuing costs for the addition based on the current cost. The District is reporting an equity interest in joint venture of \$299,702 on its government-wide financial statements for its share of WTC's building and related debt, as determined based on its annual levy contributions as a proportion of the total. Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North, Buffalo, Minnesota 55313-1936.
- 2. St. Michael-Albertville Ice Arena** – In 1996–1997, the City of Albertville entered into a joint powers agreement with the City of St. Michael and the District. The agreement was for the construction and maintenance of a qualified ice arena. During 2016, the City of Albertville was notified as being selected as the Mighty Ducks Grant recipient to help fund the cost of the ice arena. The arena was constructed with the grant award and contributions and donations from the City of Albertville, the City of St. Michael, and the District. The District is reporting an equity interest in joint venture of \$622,906 on its government-wide financial statements for its one-third interest in the ice arena's net position. Separate financial statements can be obtained by contacting the City of Albertville.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. Generally, the effect of material interfund activity has been removed from the government-wide financial statements. Transactions representing interfund services provided and used are not eliminated in the consolidation process to the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 internally directed revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met.

Depreciation and amortization are included as direct expenses in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner:

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues, including property taxes, to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt are reported as other financing sources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Fiduciary funds are presented in the fiduciary fund financial statements by type. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described earlier in these notes.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education (MDE). Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

General Fund – The General Fund is the government’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used to record financial activities of the District’s child nutrition program.

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Fiduciary Funds

Custodial Fund – The Custodial Fund is used as a flow through mechanism in which the District receives funds and distributes these funds to an organization, Family Youth Community Connections, with no financial benefit to the District.

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end. Expenditures in the Community Service Special Revenue Fund exceeded budgeted appropriations by \$21,752 during the current year. This variance was financed with revenues in excess of budget or available fund balance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Temporary 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. Earnings on the cash and investments of the Custodial (fiduciary) Fund are allocated directly to that fund.

Investments are generally stated at fair value, except for certain investments in external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less may also be reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of year-end.

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are leases and delinquent property taxes receivable.

At year-end, the District reported the following receivables due from other governmental units:

Due from MDE	\$ 9,772,237
Due from other Minnesota school districts	45,398
Due from other governmental units	<u>46,600</u>
Total	<u>\$ 9,864,235</u>

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Purchased food inventory is recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures/expenses at the time of consumption.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes

The majority of the District's revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$382,694 of the property tax levy collectible in 2025 as revenue to the District in fiscal year 2024–2025. The remaining portion of the taxes collectible in 2025 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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 calendar 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 they are collected.

Taxes that 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 reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District in the current year.

K. Capital Assets

Capital assets that are purchased or constructed by the District are recorded at historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. Lease assets are recorded based on the measurement of payments applicable to the lease term. The District defines capital assets as those with an initial, individual cost of \$5,000 or more. Groups of similar assets acquired at or near the same time for a single objective, with individual acquisition costs below this threshold, are also capitalized if the aggregate cost of the assets is considered significant. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The District does not possess material amounts of infrastructure capital assets, such as sidewalks or parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Capital assets are recorded in the government-wide financial statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated/amortized using the straight-line method over their estimated useful lives. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and building and improvements, and 5 to 15 years for furniture and equipment. Lease assets are amortized over the term of the lease or over the useful life of the applicable asset class previously described, if future ownership is anticipated. Land is not depreciated.

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

M. Compensated Absences

The District recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee flex spending account) during or upon separation from employment.

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave also enters into the calculation of benefits for some employees upon termination. Compensated absences are accrued when incurred in the government-wide financial statements. Compensated absences are accrued in the governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end, due to employee termination or similar circumstances. The liability for compensated absences includes salary-related benefits, where applicable.

N. State-Wide Pension Plans

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 the Teachers Retirement Association (TRA) and additions to/deductions from the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the 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.

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

O. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, statements of financial position or balance sheets will sometimes report separate sections for deferred outflows or inflows of resources. These separate financial statement elements represent a consumption or acquisition of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or an inflow of financial resources (revenue) until then.

The District reports deferred outflows and inflows of resources related to bond refunding deferrals in the government-wide Statement of Net Position. A bond refunding deferral results from the difference in the carrying value of refunded debt and its reacquisition price. These amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District also reports deferred outflows and inflows of resources related to pensions and other post-employment benefits (OPEB) in the government-wide Statement of Net Position. These deferred outflows and inflows result from differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings on pension and OPEB Plan investments, changes in proportion, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension and OPEB standards.

The District reports deferred inflows of resources related to lease receivables, which requires lessors to recognize deferred inflows of resources to correspond to lease receivables in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. These amounts are deferred and amortized in a systematic and rationale manner over the term of the lease.

Property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, are reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied, and in the governmental fund financial statements during the year for which they are levied, if available.

Unavailable revenue from property taxes arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

P. Risk Management

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

Q. Net Position

In the government-wide and fiduciary fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation and amortization, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted or committed. In the governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, 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.

S. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements during the reporting period. Actual results could differ from those estimates.

T. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total, but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	\$ 8,124,256
Investments	<u>41,048,500</u>
Total deposits and investments	<u>\$ 49,172,756</u>

Cash and investments are included on the basic financial statements as follows:

Statement of Net Position	
Cash and temporary investments	\$ 49,134,013
Statement of Fiduciary Net Position	
Custodial Fund – cash and temporary investments	<u>38,743</u>
Total deposits and investments	<u>\$ 49,172,756</u>

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and nonnegotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District’s deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District’s deposits was \$8,124,256, while the balance on the bank records was \$12,985,022. At June 30, 2025, all deposits were fully covered by federal deposit insurance, surety bonds, or by collateral held by the District’s agent in the District’s name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The District has the following investments at year-end:

Deposits/Investments	Credit Risk		Fair Value Measurements Using	Interest Risk – Maturity Duration in Years			Total
	Rating	Agency		Less Than 1	1 to 5	6 to 10	
Negotiable certificates of deposits	N/R	N/A	Level 2	\$ 2,144,623	\$ 793,231	\$ –	\$ 2,937,854
State and local bonds (G.O. bonds)	AAA	S&P	Level 2	\$ 1,030,527	\$ 3,873,470	\$ –	4,903,997
State and local bonds (G.O. bonds)	AA	S&P	Level 2	\$ 3,844,888	\$ 3,992,242	\$ 225,489	8,062,619
State and local bonds (G.O. bonds)	AAA	Moody's	Level 2	\$ 20,000	\$ 1,096,848	\$ –	1,116,848
State and local bonds (G.O. bonds)	AA	Moody's	Level 2	\$ 1,104,072	\$ 6,128,504	\$ –	7,232,576
Commercial paper	A-1	S&P	Level 2	\$ 1,411,241	\$ –	\$ –	1,411,241
U.S. agency securities	AA	S&P	Level 2	\$ 335,385	\$ 5,283,420	\$ –	5,618,805
U.S. treasuries	N/A	N/A	Level 2	\$ 9,744,492	\$ –	\$ –	9,744,492
Investment pools/mutual funds	AAA	S&P	Level 1	N/A	N/A	N/A	20,068
Total investments							<u>\$ 41,048,500</u>

N/R – Not Rated

N/A – Not Applicable

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – This is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The District's investment policies do not further restrict investing in specific financial instruments.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration Risk – This is the risk associated with investing a significant portion of the District’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District’s investment policies do not address concentration risk.

Investments in any one issuer representing 5 percent or more of the District’s portfolio are as follows:

U.S. agency securities	
Federal Home Loan Bank	13%

Interest Rate Risk – The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District’s investment policies do not limit the maturities of investments; however, when purchasing investments, the District considers such things as interest rates and cash flow needs.

NOTE 3 – LEASE RECEIVABLE

The District is the lessor in an agreement that conveys the right to use land owned by the District for farming. The lease calls for annual payments with a final maturity of June 30, 2029. During the current year, the District received principal and interest payments of \$23,110 related to this lease.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not depreciated/amortized				
Land	\$ 13,680,960	\$ –	\$ –	\$ 13,680,960
Capital assets, depreciated/amortized				
Land improvements	1,507,514	308,181	(523,213)	1,292,482
Building and improvements	211,373,821	146,649	(58,195)	211,462,275
Furniture and equipment	9,973,646	1,256,948	(704,075)	10,526,519
Equipment lease	295,862	–	(35,206)	260,656
Total capital assets, depreciated/amortized	<u>223,150,843</u>	<u>1,711,778</u>	<u>(1,320,689)</u>	<u>223,541,932</u>
Less accumulated depreciation/amortization for				
Land improvements	(1,242,331)	(58,236)	523,213	(777,354)
Building and improvements	(105,740,205)	(5,232,930)	58,195	(110,914,940)
Furniture and equipment	(5,746,215)	(1,005,067)	704,075	(6,047,207)
Equipment lease	(52,285)	(46,159)	–	(98,444)
Total accumulated depreciation/amortization	<u>(112,781,036)</u>	<u>(6,342,392)</u>	<u>1,285,483</u>	<u>(117,837,945)</u>
Net capital assets, depreciated/amortized	<u>110,369,807</u>	<u>(4,630,614)</u>	<u>(35,206)</u>	<u>105,703,987</u>
Total capital assets, net	<u>\$ 124,050,767</u>	<u>\$ (4,630,614)</u>	<u>\$ (35,206)</u>	<u>\$ 119,384,947</u>

Depreciation/amortization expense was charged to the following governmental functions:

District support services	\$ 44,675
Elementary and secondary regular instruction	148,234
Special education instruction	203
Community service	16,030
Instructional support services	591,113
Pupil support services	99,807
Sites and buildings	<u>5,442,330</u>
Total depreciation/amortization expense	<u>\$ 6,342,392</u>

NOTE 5 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
General obligation bonds payable					
2014A School Building Refunding	09/23/2014	2.00–4.00%	\$ 59,275,000	02/01/2030	\$ 28,770,000
2015B School Building Refunding	11/01/2015	2.00–3.00%	\$ 36,110,000	02/01/2027	9,485,000
2016A School Building Refunding	10/27/2016	3.00–5.00%	\$ 31,335,000	02/01/2030	17,495,000
2017A School Building	04/13/2017	3.20–4.00%	\$ 35,705,000	02/01/2032	34,995,000
2021A Refunding	11/04/2021	1.60–2.00%	\$ 10,325,000	02/01/2032	10,325,000
Total					<u>\$ 101,070,000</u>

These bonds were issued to finance acquisition, construction, and/or refurbishing of capital facilities, or to finance the retirement (refunding) of prior bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

B. Lease Liability

The District has obtained the use of certain equipment through lease financing agreements. The total amount of underlying lease assets by major classes and the related accumulated amortization is presented in Note 4 of the notes to basic financial statements. Annual principal and interest on these agreements will be paid from the General Fund. The agreements are secured by the original property. The lessor also may repossess the property and seek full recovery of any losses upon default. The District currently has the following lease liability obligations outstanding:

Lease Description	Interest Rate	Lease Date	Final Maturity	Principal Outstanding
Marco copiers and printers	5.50%	08/01/2023	05/31/2028	\$ 155,946
Marco copiers and printers	5.50%	04/01/2024	07/31/2028	10,167
Total lease liability				<u>\$ 166,113</u>

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

C. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including pensions, compensated absences, and OPEB. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund.

District employees participate in two state-wide, cost-sharing, multiple-employer defined benefit pension plans administered by the PERA and the TRA. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	\$ 5,544,403	\$ 2,048,880	\$ 3,786,660	\$ 483,273
TRA	37,534,974	10,732,165	11,030,593	3,862,575
Total	<u>\$ 43,079,377</u>	<u>\$ 12,781,045</u>	<u>\$ 14,817,253</u>	<u>\$ 4,345,848</u>

D. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds and the lease liability are as follows:

Year Ending June 30,	General Obligation Bonds		Lease Liability	
	Principal	Interest	Principal	Interest
2026	\$ 13,385,000	\$ 3,323,660	\$ 53,791	\$ 7,793
2027	14,220,000	2,792,635	56,825	4,759
2028	15,040,000	2,287,135	55,198	1,554
2029	15,945,000	1,715,885	299	1
2030	16,440,000	1,237,535	–	–
2031–2032	26,040,000	1,041,295	–	–
	<u>\$ 101,070,000</u>	<u>\$ 12,398,145</u>	<u>\$ 166,113</u>	<u>\$ 14,107</u>

E. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 113,720,000	\$ –	\$ 12,650,000	\$ 101,070,000	\$ 13,385,000
Unamortized premium/discount	5,021,783	–	1,045,529	3,976,254	–
Net bonds payable	118,741,783	–	13,695,529	105,046,254	13,385,000
Lease liability	217,032	–	50,919	166,113	53,791
Net pension liability	55,372,257	7,392,539	19,685,419	43,079,377	–
Total OPEB liability	3,562,521	373,610	200,858	3,735,273	172,543
Compensated absences payable	311,536	3,421,024	2,992,501	740,059	66,605
	<u>\$ 178,205,129</u>	<u>\$ 11,187,173</u>	<u>\$ 36,625,226</u>	<u>\$ 152,767,076</u>	<u>\$ 13,677,939</u>

NOTE 6 – FUND BALANCES

The following is a breakdown of equity components of governmental funds, which are defined earlier in the report. When applicable, certain restrictions with an accumulated deficit balance at year-end are included in unassigned fund balance in the District’s financial statements in accordance with accounting principles generally accepted in the United States of America. A description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

A. Classifications

At June 30, 2025, a summary of the District’s governmental fund balance classifications are as follows:

	General Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable				
Inventory	\$ –	\$ –	\$ 31,983	\$ 31,983
Prepaid items	168,782	–	–	168,782
Total nonspendable	<u>168,782</u>	<u>–</u>	<u>31,983</u>	<u>200,765</u>
Restricted				
Staff development	1,683,187	–	–	1,683,187
Literacy incentive aid	290,112	–	–	290,112
American Indian education aid	22,889	–	–	22,889
Operating capital	608,963	–	–	608,963
Quality compensation	437,367	–	–	437,367
Safe schools levy	199,003	–	–	199,003
Literacy aid	163,263	–	–	163,263
READ act training	24,459	–	–	24,459
Long-term facilities maintenance	3,297,920	–	–	3,297,920
Medical Assistance	408,476	–	–	408,476
Debt service	–	4,431,279	–	4,431,279
Food service	–	–	3,165,666	3,165,666
Community education	–	–	210,276	210,276
Early childhood family education	–	–	254,370	254,370
School readiness	–	–	249,259	249,259
Community service	–	–	51,083	51,083
Total restricted	<u>7,135,639</u>	<u>4,431,279</u>	<u>3,930,654</u>	<u>15,497,572</u>
Assigned				
Subsequent year’s budget	3,773,288	–	–	3,773,288
Severance	90,500	–	–	90,500
Teacher retiree insurance	215,600	–	–	215,600
Insurance claims	642,000	–	–	642,000
Building activity carryover	431,212	–	–	431,212
Total assigned	<u>5,152,600</u>	<u>–</u>	<u>–</u>	<u>5,152,600</u>
Unassigned				
Unassigned	<u>18,495,546</u>	<u>–</u>	<u>–</u>	<u>18,495,546</u>
Total	<u>\$ 30,952,567</u>	<u>\$ 4,431,279</u>	<u>\$ 3,962,637</u>	<u>\$ 39,346,483</u>

B. Minimum Unassigned Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding the unassigned fund balance for the General Fund. The policy states that the unassigned fund balance should be, at a minimum, 12.0 percent of the total General Fund expenditures. The June 30, 2025 unassigned fund balance in the General Fund represented 21.5 percent of total General Fund expenditures for fiscal 2025.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

The District participates in the following cost-sharing, multiple-employer defined benefit pension plans administered by the PERA and the TRA. The PERA's and the TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. The PERA's and the TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. Minnesota Statutes, Chapter 356 defines each plan's financial reporting requirements.

Certain full-time and part-time employees of the District other than teachers are covered by the GERF. 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.

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity, administered by a Board of Trustees. The Board of Trustees 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 Public Schools or Minnesota State Colleges and Universities (MnSCU)). Educators first hired by MnSCU may elect either TRA coverage within one year of eligible employment or elect coverage through the Defined Contribution Retirement (DCR) Plan administered by MnSCU. A teacher employed by MnSCU and electing the DCR Plan is not a member of the TRA except for purposes of Social Security coverage.

B. Benefits Provided

1. GERF Benefits

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statutes 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The 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 the highest average salary for all years of service. For members hired prior to July 1, 1989, a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by 0.25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of 0.25 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 post-retirement increase is equal to 50.0 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.0 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 the June 30 before the effective date of the increase, will receive the full increase. For recipients receiving the annuity or benefit for at least one month, but less than a full year as of the June 30 before the effective date of the increase, will receive a reduced prorated increase.

2. TRA Benefits

The 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 Statutes and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service. TRA members belong to either the Basic or Coordinated Plan.

Two methods are used to compute benefits for the 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Tier I Benefits

Step-Rate Formula	Percentage per Year
Basic Plan	
First 10 years of service	2.2 %
All years after	2.7 %
Coordinated Plan	
First 10 years if service years are up to July 1, 2006	1.2 %
First 10 years if service years are July 1, 2006 or after	1.4 %
All other years of service if service years are up to July 1, 2006	1.7 %
All other years of service if service years are July 1, 2006 or after	1.9 %

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) Three percent per year early retirement reduction factor 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 per year 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employee and employer contributions. Coordinated 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 GERF for the year ended June 30, 2025, were \$1,038,287. The District's contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. Rates for each fiscal year 2025 Coordinated Plan were 7.75 percent for the employee and 8.75 percent for the employer. Basic Plan rates were 11.25 percent for the employee and 12.75 percent for the employer. The District's contributions to the TRA for the plan's fiscal year ended June 30, 2025, were \$3,657,038. The District's contributions were equal to the required contributions for each year as set by state statutes.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2025, the District reported a liability of \$5,544,403 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 nonemployer 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 \$143,367.

District's proportionate share of the net pension liability	\$ 5,544,403
State's proportionate share of the net pension liability associated with the District	<u>143,367</u>
Total	<u>\$ 5,687,770</u>

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2023 through June 30, 2024, relative to the total employer contributions received from all of the PERA's participating employers. The District's proportionate share was 0.1500 percent at the end of the measurement period and 0.1386 percent for the beginning of the period.

For the year ended June 30, 2025, the District recognized pension expense of \$479,429 for its proportionate share of the GERF's pension expense. The District also recognized an additional \$3,844 as pension expense and grant revenue for its proportionate share of the state of Minnesota's pension expense for the annual \$16 million contribution.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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 \$255,094 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 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	\$ 508,428	\$ –
Changes in actuarial assumptions	25,180	1,982,255
Net difference between projected and actual investment earnings on pension plan investments	–	1,688,694
Changes in proportion	476,985	115,711
District’s contributions to the GERF subsequent to the measurement date	1,038,287	–
	<u>1,038,287</u>	<u>–</u>
Total	<u>\$ 2,048,880</u>	<u>\$ 3,786,660</u>

The \$1,038,287 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2026	\$ (1,675,793)
2027	\$ (168,811)
2028	\$ (506,519)
2029	\$ (424,944)

2. TRA Pension Costs

At June 30, 2025, the District reported a liability of \$37,534,974 for its proportionate share of the TRA’s net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2024. The District’s proportion of the net pension liability was based on the District’s contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Minneapolis School District. The District’s proportionate share was 0.5907 percent at the end of the measurement period and 0.5768 percent for the beginning of the period.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The pension liability amount reflected a reduction due to direct aid provided to the 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 the net pension liability	\$ 37,534,974
State’s proportionate share of the net pension liability associated with the District	<u>2,454,808</u>
Total	<u><u>\$ 39,989,782</u></u>

For the year ended June 30, 2025, the District recognized pension expense of \$3,727,633. It also recognized \$134,942 as an increase to pension expense for the support provided by direct aid.

During the plan year ended June 30, 2024, the state of Minnesota contributed \$176.0 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 \$176.0 million in direct state aid because of this contribution was not considered to meet the definition of a special funding situation. The District recognized \$1,040,616 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.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,785,787	\$ 479,520
Changes in actuarial assumptions	3,828,818	4,476,147
Net difference between projected and actual investment earnings on pension plan investments	–	5,480,222
Changes in proportion	1,460,522	594,704
District’s contributions to the TRA subsequent to the measurement date	<u>3,657,038</u>	<u>–</u>
Total	<u><u>\$ 10,732,165</u></u>	<u><u>\$ 11,030,593</u></u>

The \$3,657,038 reported as deferred outflows of resources related to pensions resulting from district contributions to the 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 deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2026	\$ (2,144,772)
2027	\$ 3,504,905
2028	\$ (2,764,376)
2029	\$ (2,150,130)
2030	\$ (401,093)

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

E. Long-Term Expected Return on Investment

The State Board of Investment, which manages the investments of the PERA and the TRA, 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 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 an expected long-term rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation.

The target allocation and best-estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Allocation</u>	<u>Real Rate of Return</u>
Domestic equity	33.50 %	5.10 %
International equity	16.50	5.30 %
Private markets	25.00	5.90 %
Fixed income	25.00	0.75 %
Total	<u>100.00 %</u>	

F. Actuarial Methods and Assumptions

1. GERF

The total pension liability 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 7.00 percent. The 7.00 percent 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 7.00 percent is within that range.

Inflation is assumed to be 2.25 percent for the GERF Plan. Benefit increases after retirement are assumed to be 1.25 percent for the GERF Plan.

Salary growth assumptions in the GERF Plan range in annual increments from 10.25 percent after one year of service to 3.00 percent after 27 years of service.

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

2. TRA

The total pension liability in the July 1, 2024 actuarial valuation was determined using the entry-age normal method and actuarial assumptions, applied to all periods included in the measurement. Key assumptions used in the valuation of the total pension liability are as follows:

Actuarial Assumptions Used in Valuation of Total Pension Liability	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% thereafter
Cost of living adjustment	1.00 percent for January 2019 through January 2023, then increasing by 0.10 percent each year up to 1.50 percent annually

Mortality Assumptions Used in Valuation of Total Pension Liability	
Pre-Retirement	PubT-2010(A) Employee Mortality Table, male rates set forward one year and female rates unadjusted. Generational projection uses the MP-2021 Scale.
Healthy Retirees	PubT-2010(A) Retiree Mortality Table, male rates set forward one year and female rates unadjusted. Generational projection uses the MP-2021 Scale.
Beneficiaries	Pub-2010(A) Contingent Survivor Mortality Table, male rates set forward one year and female rates unadjusted. Generational projection uses the MP-2021 Scale.
Disabled Retirees	PubNS-2010 Disabled Retiree Mortality Table, male rates set forward one year and female rates unadjusted. Generational projection uses the MP-2021 Scale.

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

1. GERF

CHANGES IN PLAN PROVISIONS

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

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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

2. TRA

CHANGES IN ACTUARIAL ASSUMPTIONS

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the 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 15.00 percent to reflect the continued lower than expected observations.

G. Discount Rate

1. GERP

The discount rate used to measure the total pension liability in 2024 was 7.00 percent. 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 GERP 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.

2. TRA

The discount rate used to measure the total pension liability was 7.00 percent. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2024 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

H. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Current Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.00%	7.00%	8.00%
District’s proportionate share of the GERF net pension liability	\$ 12,109,868	\$ 5,544,403	\$ 143,709
TRA discount rate	6.00%	7.00%	8.00%
District’s proportionate share of the TRA net pension liability	\$ 66,101,285	\$ 37,534,974	\$ 14,024,222

I. Pension Plan Fiduciary Net Position

Detailed information about the 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.

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. Management of the plan is vested with the School Board of the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a separate financial report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

B. Benefits Provided

All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

C. Contributions

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined periodically by the District. The District's contributions in the current year totaled \$172,543 as required on a pay-as-you-go basis to finance current year benefits as described in the previous section.

D. Membership

Membership in the plan consisted of the following as of the most recent actuarial valuation:

Retirees and beneficiaries receiving benefits	23
Active plan members electing coverage	491
Active plan members waiving coverage	<u>268</u>
Total members	<u><u>782</u></u>

E. Total OPEB Liability of the District

The District's total OPEB liability of \$3,735,273 was measured as of June 30, 2024, and was determined by an actuarial valuation (census date) of June 30, 2023.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

F. Actuarial Method and Assumptions

The total OPEB liability was determined by an actuarial study with a valuation as of June 30, 2023, and a measurement date of June 30, 2024. Update procedures were used to roll forward the total OPEB liability to the measurement date. The entry-age method and the following actuarial assumptions were applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.97%
20-year municipal bond yield	3.97%
Inflation rate	2.50%
Healthcare trend rate	7.60%, grading to 3.90%

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-year municipal bond yield.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale for teachers, and Pub-2010 General Mortality Tables with MP-2021 Generational Improvement Scale for nonteachers.

The actuarial assumptions used in the latest valuation were based on those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

Economic assumptions are based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information, as well as for consistency with the other economic assumptions.

Assumption changes since the prior measurement date include the following:

- The discount rate changed from 3.86 percent to 3.97 percent.
- The index rate for 20-year, tax-exempt municipal bonds used in the discount rate determination changed from 3.86 percent to 3.97 percent.

G. Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Beginning balance	\$ 3,562,521
Changes for the year	
Service cost	230,361
Interest	143,249
Differences between expected and actual experience	(11,609)
Assumption changes	(25,716)
Benefit payments	<u>(163,533)</u>
Total net changes	<u>172,752</u>
Ending balance	<u><u>\$ 3,735,273</u></u>

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

H. Total OPEB Liability Sensitivity to Discount and Healthcare Cost Trend Rate Changes

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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Current Discount Rate</u>	<u>1% Increase in Discount Rate</u>
OPEB discount rate	2.97%	3.97%	4.97%
Total OPEB liability	\$ 3,971,472	\$ 3,735,273	\$ 3,505,432

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 trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare trend rates:

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Healthcare trend rate	6.60%, grading to 2.90%	7.60%, grading to 3.90%	8.60%, grading to 4.90%
Total OPEB liability	\$ 3,392,969	\$ 3,735,273	\$ 4,137,949

I. OPEB Expense and Related Deferred Outflows of Resources and Deferred Inflows of Resources

For the current year ended, the District recognized OPEB expense of \$255,076. As of year-end, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 415,768	\$ 535,129
Changes in actuarial assumptions	317,919	458,176
District’s contributions subsequent to the measurement date	172,543	–
Total	<u>\$ 906,230</u>	<u>\$ 993,305</u>

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

A total of \$172,543 reported as deferred outflows of resources related to OPEB resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as follows:

Year Ending June 30,	OPEB Expense Amount
2026	\$ (117,510)
2027	\$ (104,328)
2028	\$ (84,845)
2029	\$ (31,143)
2030	\$ (16,781)
Thereafter	\$ 94,989

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds that may be disallowed by the agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

B. Legal Claims

The District has the usual and customary types of miscellaneous legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

NOTE 10 – SUBSEQUENT EVENTS

In November 2025, district taxpayers passed two referendum questions to support district operations and facility improvements. The first question authorized a phased increase in the District's annual operating levy that will generate additional revenue of between \$275 and \$835 per student for a period of 10 years, beginning in fiscal 2027, needed to maintain class sizes, programs, and staffing. The second question authorized the District to issue \$21 million in bonds for projects to improve safety and security, technology, building maintenance, and academic spaces throughout all schools.

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REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 885

Public Employees Retirement Association Pension Benefits Plan
 Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
 Year Ended June 30, 2025

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2016	06/30/2015	0.1321%	\$ 6,846,108	\$ -	\$ 6,846,108	\$ 7,637,560	89.64%	78.20%
06/30/2017	06/30/2016	0.1310%	\$ 10,636,550	\$ 138,906	\$ 10,775,456	\$ 8,120,427	130.99%	68.90%
06/30/2018	06/30/2017	0.1375%	\$ 8,777,909	\$ 110,368	\$ 8,888,277	\$ 8,857,493	99.10%	75.90%
06/30/2019	06/30/2018	0.1411%	\$ 7,827,649	\$ 256,711	\$ 8,084,360	\$ 9,483,693	82.54%	79.50%
06/30/2020	06/30/2019	0.1447%	\$ 8,000,139	\$ 248,656	\$ 8,248,795	\$ 10,171,093	78.66%	80.20%
06/30/2021	06/30/2020	0.1514%	\$ 9,077,122	\$ 279,962	\$ 9,357,084	\$ 10,795,877	84.08%	79.10%
06/30/2022	06/30/2021	0.1470%	\$ 6,277,558	\$ 191,717	\$ 6,469,275	\$ 10,593,287	59.26%	87.00%
06/30/2023	06/30/2022	0.1395%	\$ 11,048,446	\$ 323,931	\$ 11,372,377	\$ 10,454,038	105.69%	76.70%
06/30/2024	06/30/2023	0.1386%	\$ 7,750,357	\$ 213,769	\$ 7,964,126	\$ 10,993,891	70.50%	83.10%
06/30/2025	06/30/2024	0.1500%	\$ 5,544,403	\$ 143,367	\$ 5,687,770	\$ 12,563,791	44.13%	89.08%

Public Employees Retirement Association Pension Benefits Plan
 Schedule of District Contributions
 Year Ended June 30, 2025

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2016	\$ 609,032	\$ 609,032	\$ -	\$ 8,120,427	7.50%
06/30/2017	\$ 664,312	\$ 664,312	\$ -	\$ 8,857,493	7.50%
06/30/2018	\$ 711,277	\$ 711,277	\$ -	\$ 9,483,693	7.50%
06/30/2019	\$ 762,832	\$ 762,832	\$ -	\$ 10,171,093	7.50%
06/30/2020	\$ 809,736	\$ 809,736	\$ -	\$ 10,795,877	7.50%
06/30/2021	\$ 793,826	\$ 793,826	\$ -	\$ 10,593,287	7.49%
06/30/2022	\$ 783,894	\$ 783,894	\$ -	\$ 10,454,038	7.50%
06/30/2023	\$ 824,187	\$ 824,187	\$ -	\$ 10,993,891	7.50%
06/30/2024	\$ 942,273	\$ 942,273	\$ -	\$ 12,563,791	7.50%
06/30/2025	\$ 1,038,287	\$ 1,038,287	\$ -	\$ 13,844,081	7.50%

INDEPENDENT SCHOOL DISTRICT NO. 885

Teachers Retirement Association Pension Benefits Plan
 Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
 Year Ended June 30, 2025

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2016	06/30/2015	0.4860%	\$ 30,063,907	\$ 3,687,540	\$ 33,751,447	\$ 24,666,013	121.88%	76.80%
06/30/2017	06/30/2016	0.5028%	\$ 119,929,797	\$ 12,038,519	\$ 131,968,316	\$ 26,154,600	458.54%	44.88%
06/30/2018	06/30/2017	0.5229%	\$ 104,380,325	\$ 10,089,283	\$ 114,469,608	\$ 28,150,627	370.79%	51.57%
06/30/2019	06/30/2018	0.5411%	\$ 33,986,145	\$ 3,192,897	\$ 37,179,042	\$ 29,897,920	113.67%	78.07%
06/30/2020	06/30/2019	0.5681%	\$ 36,210,813	\$ 3,204,677	\$ 39,415,490	\$ 32,686,900	110.78%	78.21%
06/30/2021	06/30/2020	0.5838%	\$ 43,131,926	\$ 3,614,442	\$ 46,746,368	\$ 33,925,653	127.14%	75.48%
06/30/2022	06/30/2021	0.5975%	\$ 26,148,387	\$ 2,205,349	\$ 28,353,736	\$ 35,778,129	73.08%	86.63%
06/30/2023	06/30/2022	0.5813%	\$ 46,547,429	\$ 3,451,857	\$ 49,999,286	\$ 35,960,210	129.44%	76.17%
06/30/2024	06/30/2023	0.5768%	\$ 47,621,900	\$ 3,335,825	\$ 50,957,725	\$ 36,693,124	129.78%	76.42%
06/30/2025	06/30/2024	0.5907%	\$ 37,534,974	\$ 2,454,808	\$ 39,989,782	\$ 39,155,852	95.86%	82.07%

Teachers Retirement Association Pension Benefits Plan
 Schedule of District Contributions
 Year Ended June 30, 2025

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2016	\$ 1,961,595	\$ 1,961,595	\$ -	\$ 26,154,600	7.50%
06/30/2017	\$ 2,111,297	\$ 2,111,297	\$ -	\$ 28,150,627	7.50%
06/30/2018	\$ 2,242,344	\$ 2,242,344	\$ -	\$ 29,897,920	7.50%
06/30/2019	\$ 2,520,160	\$ 2,520,160	\$ -	\$ 32,686,900	7.71%
06/30/2020	\$ 2,686,725	\$ 2,686,725	\$ -	\$ 33,925,653	7.92%
06/30/2021	\$ 2,907,235	\$ 2,907,235	\$ -	\$ 35,778,129	8.13%
06/30/2022	\$ 2,995,645	\$ 2,995,645	\$ -	\$ 35,960,210	8.33%
06/30/2023	\$ 3,135,385	\$ 3,135,385	\$ -	\$ 36,693,124	8.54%
06/30/2024	\$ 3,424,545	\$ 3,424,545	\$ -	\$ 39,155,852	8.75%
06/30/2025	\$ 3,657,038	\$ 3,657,038	\$ -	\$ 41,797,412	8.75%

INDEPENDENT SCHOOL DISTRICT NO. 885

Other Post-Employment Benefits Plan
 Schedule of Changes in the District's Total
 OPEB Liability and Related Ratios
 Year Ended June 30, 2025

	Fiscal Year Ended June 30,							
	2018	2019	2020	2021	2022	2023	2024	2025
Measurement date	06/30/2017	06/30/2018	06/30/2019	06/30/2020	06/30/2021	06/30/2022	06/30/2023	06/30/2024
Total OPEB liability								
Service cost	\$ 254,534	\$ 246,437	\$ 259,402	\$ 226,393	\$ 264,921	\$ 209,212	\$ 163,918	\$ 230,361
Interest	89,139	112,995	125,427	96,268	85,587	59,409	104,967	143,249
Assumption changes	(130,063)	(12,873)	(666,843)	142,276	273,537	(320,923)	142,590	(25,716)
Differences between expected and actual experience	–	–	2,855	–	(953,578)	(18,076)	539,455	(11,609)
Changes of benefit terms	–	–	–	–	96,663	–	–	–
Benefit payments	(105,095)	(63,297)	(74,148)	(79,864)	(91,650)	(129,520)	(138,255)	(163,533)
Net change in total OPEB liability	108,515	283,262	(353,307)	385,073	(324,520)	(199,898)	812,675	172,752
Total OPEB liability – beginning of year	2,850,721	2,959,236	3,242,498	2,889,191	3,274,264	2,949,744	2,749,846	3,562,521
Total OPEB liability – end of year	<u>\$ 2,959,236</u>	<u>\$ 3,242,498</u>	<u>\$ 2,889,191</u>	<u>\$ 3,274,264</u>	<u>\$ 2,949,744</u>	<u>\$ 2,749,846</u>	<u>\$ 3,562,521</u>	<u>\$ 3,735,273</u>
Covered-employee payroll	<u>\$35,685,444</u>	<u>\$40,435,421</u>	<u>\$41,042,752</u>	<u>\$41,683,887</u>	<u>\$38,848,040</u>	<u>\$ 43,101,671</u>	<u>\$46,219,384</u>	<u>\$48,328,875</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>8.29%</u>	<u>8.02%</u>	<u>7.04%</u>	<u>7.85%</u>	<u>7.59%</u>	<u>6.38%</u>	<u>7.71%</u>	<u>7.73%</u>

Note 1: The District has not established a trust fund to finance GASB Statement No. 75-related benefits.

Note 2: The District implemented GASB Statement No. 75 for the year ended June 30, 2018. The schedules within the RSI section require a 10-year presentation. Additional years will be presented as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 885

Notes to Required Supplementary Information
June 30, 2025

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2024 CHANGES IN PLAN PROVISIONS

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

2024 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2023 CHANGES IN PLAN PROVISIONS

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, noncompounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2023 CHANGES IN ACTUARIAL ASSUMPTIONS

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

2022 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2021 CHANGES IN ACTUARIAL ASSUMPTIONS

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 CHANGES IN PLAN PROVISIONS

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023, and zero percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2020 CHANGES IN ACTUARIAL ASSUMPTIONS

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years two through five, and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 Table to the Pub-2010 General Mortality Table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality Table to the Pub-2010 General/Teacher Disabled Annuitant Mortality Table, with adjustments.
- The mortality improvement scale was changed from MP-2018 to MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 percent joint and survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent joint and survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.

2019 CHANGES IN PLAN PROVISIONS

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2018 CHANGES IN PLAN PROVISIONS

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to zero percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year, with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio, to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2018 CHANGES IN PLAN PROVISIONS (CONTINUED)

- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter, to 1.25 percent per year.

2017 CHANGES IN PLAN PROVISIONS

- The state's contribution for the Minneapolis Employees Retirement Fund equals \$16.0 million in 2017 and 2018, and \$6.0 million thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21.0 million to \$31.0 million in calendar years 2019 to 2031. The state's contribution changed from \$16.0 million to \$6.0 million in calendar years 2019 to 2031.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035, and 2.50 percent per year thereafter, to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth, and 2.50 percent for inflation.

2015 CHANGES IN PLAN PROVISIONS

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892.0 million. Upon consolidation, state and employer contributions were revised; the state's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030, and 2.50 percent per year thereafter, to 1.00 percent per year through 2035, and 2.50 percent per year thereafter.

TEACHERS RETIREMENT ASSOCIATION (TRA)

2024 CHANGES IN ACTUARIAL ASSUMPTIONS

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub2010 family of tables.
- 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 15.00 percent to reflect the continued lower than expected observations.

2023 CHANGES IN ACTUARIAL ASSUMPTIONS

- The normal retirement age for active and eligible Tier II members will be 65 effective July 1, 2024.
- The employer contribution rate will increase from 8.75 percent to 9.50 percent on July 1, 2025.
- The employee contribution rate will increase from 7.75 percent to 8.00 percent on July 1, 2025.
- The pension adjustment rate for school districts and the base budgets for MnSCU, Perpich Center for Arts Education, and Minnesota academies will increase to reflect the 0.75 percent employer contribution rate increase.

2021 CHANGES IN ACTUARIAL ASSUMPTIONS

- The investment return assumption was changed from 7.50 percent to 7.00 percent.

2018 CHANGES IN PLAN PROVISIONS

- The cost of living adjustment (COLA) was reduced from 2.00 percent each January 1 to 1.00 percent, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.10 percent each year until reaching the ultimate rate of 1.50 percent on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit, are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.50 percent if the funded ratio was at least 90.00 percent for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.00 percent to 3.00 percent, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.50 percent to 7.50 percent, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years, (7.71 percent in 2018, 7.92 percent in 2019, 8.13 percent in 2020, 8.34 percent in 2021, 8.55 percent in 2022, and 8.75 percent in 2023). In addition, the employee contribution rate will increase from 7.50 percent to 7.75 percent on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

TEACHERS RETIREMENT ASSOCIATION (TRA) (CONTINUED)

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The investment return assumption was changed from 8.50 percent to 7.50 percent.
- The single discount rate changed from 5.12 percent to 7.50 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The COLA was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- Adjustments were made to the CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

- The single discount rate was changed from 8.00 percent to 4.66 percent.

2015 CHANGES IN PLAN PROVISIONS

- The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

- The annual COLA for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent, with an increase to 2.50 percent commencing in 2034.
- The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent.

OTHER POST-EMPLOYMENT BENEFITS PLAN

2024 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate and 20-year, tax-exempt municipal bonds used in the discount rate determination changed from 3.86 percent to 3.97 percent.

2023 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate and 20-year, tax-exempt municipal bonds used in the discount rate determination changed from 3.69 percent to 3.86 percent.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality rates were updated from the rates used in the July 1, 2021 PERA General Employees Plan valuation to the rates used in the July 1, 2023 valuation.
- The percent of future retirees assumed to elect spouse coverage at retirement changed from 10.00 percent to 5.00 percent to reflect recent plan experience.
- The percent of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.
- The general inflation assumption was changed from 2.25 percent to 2.50 percent based on an updated analysis of historical inflation rates and forward-looking market expectations.

2022 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate and 20-year, tax-exempt municipal bonds used in the discount rate determination changed from 1.92 percent to 3.69 percent.

2021 CHANGES IN PLAN BENEFIT TERMS

- Retiree premiums were updated to current levels.
- The lump sum payment amounts for principals were increased to \$7,500 and \$9,000.
- Refinements were made to reflect the most recent individual director contracts.

2021 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate and 20-year, tax-exempt municipal bonds used in the discount rate determination changed from 2.45 percent to 1.92 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs, the percentage of future retirees eligible for explicit subsidy assumed to elect coverage at retirement, and the percentage of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.
- Withdrawal, retirement, mortality, and salary increase rates were updated to the rates used in the July 1, 2021 PERA and TRA valuations.

2020 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount and 20-year, tax-exempt municipal bonds used in the discount rate determination rate changed from 3.13 percent to 2.45 percent.

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate and 20-year, tax-exempt municipal bonds used in the discount rate determination rate changed from 3.62 percent to 3.13 percent.

OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate and 20-year, tax-exempt municipal bonds used in the discount rate determination rate changed from 2.92 percent to 3.62 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate and 20-year, tax-exempt municipal bonds used in the discount rate determination rate changed to 2.92 percent.

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SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 885

Nonmajor Governmental Funds
 Combining Balance Sheet
 as of June 30, 2025

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Food Service</u>	<u>Community Service</u>	
Assets			
Cash and temporary investments	\$ 3,171,870	\$ 1,547,124	\$ 4,718,994
Receivables			
Current taxes	–	111,715	111,715
Delinquent taxes	–	995	995
Accounts and interest	–	12,401	12,401
Due from other governmental units	107,408	82,690	190,098
Inventory	31,983	–	31,983
	<u>31,983</u>	<u>–</u>	<u>31,983</u>
Total assets	<u>\$ 3,311,261</u>	<u>\$ 1,754,925</u>	<u>\$ 5,066,186</u>
Liabilities			
Salaries payable	\$ 470	\$ 240,085	\$ 240,555
Accounts and contracts payable	7,620	122,895	130,515
Due to other governmental units	–	3,862	3,862
Unearned revenue	105,522	387,077	492,599
Total liabilities	<u>113,612</u>	<u>753,919</u>	<u>867,531</u>
Deferred inflows of resources			
Property taxes levied for subsequent year	–	235,023	235,023
Unavailable revenue – delinquent taxes	–	995	995
Total deferred inflows of resources	<u>–</u>	<u>236,018</u>	<u>236,018</u>
Fund balances			
Nonspendable	31,983	–	31,983
Restricted	3,165,666	764,988	3,930,654
Total fund balances	<u>3,197,649</u>	<u>764,988</u>	<u>3,962,637</u>
	<u>3,197,649</u>	<u>764,988</u>	<u>3,962,637</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,311,261</u>	<u>\$ 1,754,925</u>	<u>\$ 5,066,186</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Nonmajor Governmental Funds
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Year Ended June 30, 2025

	Special Revenue Funds		Total
	Food Service	Community Service	
Revenue			
Local sources			
Property taxes	\$ -	\$ 216,993	\$ 216,993
Investment earnings	147,307	82,818	230,125
Other	456,107	4,262,340	4,718,447
State sources	3,252,224	719,530	3,971,754
Federal sources	1,681,463	-	1,681,463
Total revenue	<u>5,537,101</u>	<u>5,281,681</u>	<u>10,818,782</u>
Expenditures			
Current			
Food service	5,156,321	-	5,156,321
Community service	-	5,603,717	5,603,717
Capital outlay	360,447	69,093	429,540
Total expenditures	<u>5,516,768</u>	<u>5,672,810</u>	<u>11,189,578</u>
Net change in fund balances	20,333	(391,129)	(370,796)
Fund balances			
Beginning of year	<u>3,177,316</u>	<u>1,156,117</u>	<u>4,333,433</u>
End of year	<u>\$ 3,197,649</u>	<u>\$ 764,988</u>	<u>\$ 3,962,637</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

General Fund
Comparative Balance Sheet
as of June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and temporary investments	\$ 34,050,907	\$ 30,242,222
Receivables		
Current taxes	4,256,532	3,509,201
Delinquent taxes	27,641	22,652
Accounts and interest	570,085	233,435
Due from other governmental units	9,133,704	8,775,422
Lease	91,780	114,890
Prepaid items	<u>168,782</u>	<u>151,060</u>
Total assets	<u>\$ 48,299,431</u>	<u>\$ 43,048,882</u>
Liabilities		
Salaries payable	\$ 5,865,523	\$ 5,424,140
Accounts and contracts payable	2,768,029	2,470,851
Due to other governmental units	110,610	128,422
Unearned revenue	<u>6,880</u>	<u>33,016</u>
Total liabilities	<u>8,751,042</u>	<u>8,056,429</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	8,476,401	7,075,827
Lease revenue for subsequent years	91,780	114,890
Unavailable revenue – delinquent taxes	<u>27,641</u>	<u>22,652</u>
Total deferred inflows of resources	<u>8,595,822</u>	<u>7,213,369</u>
Fund balances		
Nonspendable for prepaid items	168,782	151,060
Restricted for staff development	1,683,187	1,784,793
Restricted for literacy incentive aid	290,112	290,764
Restricted for American Indian education aid	22,889	12,833
Restricted for operating capital	608,963	747,826
Restricted for quality compensation	437,367	–
Restricted for safe schools levy	199,003	160,225
Restricted for literacy aid	163,263	–
Restricted for READ Act training	24,459	–
Restricted for long-term facilities maintenance	3,297,920	3,100,203
Restricted for Medical Assistance	408,476	347,452
Assigned for subsequent year’s budget	3,773,288	700,686
Assigned for severance	90,500	65,500
Assigned for teacher retiree insurance	215,600	151,800
Assigned for quality compensation	–	554,336
Assigned for insurance claims	642,000	525,000
Assigned for building activity carryover	431,212	355,353
Unassigned	<u>18,495,546</u>	<u>18,831,253</u>
Total fund balances	<u>30,952,567</u>	<u>27,779,084</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 48,299,431</u>	<u>\$ 43,048,882</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2025
 (With Comparative Actual Amounts for the Year Ended June 30, 2024)

	2025		2024	
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 7,589,462	\$ 7,609,982	\$ 20,520	\$ 6,609,888
Investment earnings	900,000	1,600,072	700,072	1,377,622
Other	3,256,961	3,952,667	695,706	3,775,256
State sources	72,851,810	74,754,991	1,903,181	70,928,941
Federal sources	1,313,200	1,468,610	155,410	2,182,552
Total revenue	85,911,433	89,386,322	3,474,889	84,874,259
Expenditures				
Current				
Administration				
Salaries	1,474,326	1,457,459	(16,867)	1,377,249
Employee benefits	562,456	553,764	(8,692)	469,606
Purchased services	49,010	47,811	(1,199)	52,381
Supplies and materials	56,157	49,214	(6,943)	43,490
Other expenditures	51,170	51,780	610	50,126
Total administration	2,193,119	2,160,028	(33,091)	1,992,852
District support services				
Salaries	1,309,346	1,294,040	(15,306)	1,106,437
Employee benefits	569,065	561,668	(7,397)	377,770
Purchased services	501,613	495,657	(5,956)	558,758
Supplies and materials	243,975	238,726	(5,249)	192,707
Capital expenditures	17,592	15,530	(2,062)	164,213
Other expenditures	(393,155)	(399,661)	(6,506)	26,425
Total district support services	2,248,436	2,205,960	(42,476)	2,426,310
Elementary and secondary regular instruction				
Salaries	27,573,758	27,544,819	(28,939)	26,290,853
Employee benefits	8,547,117	8,524,939	(22,178)	7,802,371
Purchased services	1,516,681	1,512,144	(4,537)	1,210,655
Supplies and materials	1,578,475	1,243,966	(334,509)	1,568,160
Capital expenditures	193,120	181,576	(11,544)	337,257
Other expenditures	168,863	156,892	(11,971)	158,845
Total elementary and secondary regular instruction	39,578,014	39,164,336	(413,678)	37,368,141

INDEPENDENT SCHOOL DISTRICT NO. 885

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended June 30, 2025
 (With Comparative Actual Amounts for the Year Ended June 30, 2024)

	2025		Over (Under) Budget	2024
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	1,088,419	1,078,813	(9,606)	1,046,833
Employee benefits	301,250	296,942	(4,308)	316,007
Purchased services	585,805	582,879	(2,926)	561,066
Supplies and materials	72,639	69,124	(3,515)	65,081
Other expenditures	6,300	6,024	(276)	6,062
Total vocational education instruction	2,054,413	2,033,782	(20,631)	1,995,049
Special education instruction				
Salaries	11,762,751	11,679,098	(83,653)	10,685,892
Employee benefits	3,905,567	3,858,462	(47,105)	3,525,408
Purchased services	388,082	386,160	(1,922)	486,637
Supplies and materials	121,923	114,877	(7,046)	108,568
Capital expenditures	61,000	58,649	(2,351)	14,065
Other expenditures	52,830	52,617	(213)	53,573
Total special education instruction	16,292,153	16,149,863	(142,290)	14,874,143
Community education services				
Employee benefits	16,500	12,579	(3,921)	5,823
Instructional support services				
Salaries	4,971,839	4,921,063	(50,776)	4,201,769
Employee benefits	1,636,841	1,614,651	(22,190)	1,338,241
Purchased services	362,893	327,831	(35,062)	337,458
Supplies and materials	1,254,639	1,245,039	(9,600)	1,366,263
Capital expenditures	718,000	709,339	(8,661)	548,844
Other expenditures	41,130	40,456	(674)	33,086
Total instructional support services	8,985,342	8,858,379	(126,963)	7,825,661
Pupil support services				
Salaries	1,749,688	1,731,222	(18,466)	1,556,059
Employee benefits	642,315	627,877	(14,438)	549,671
Purchased services	4,251,135	4,243,613	(7,522)	3,259,675
Supplies and materials	137,359	131,684	(5,675)	138,156
Capital expenditures	—	—	—	26,882
Other expenditures	7,500	7,526	26	7,197
Total pupil support services	6,787,997	6,741,922	(46,075)	5,537,640

INDEPENDENT SCHOOL DISTRICT NO. 885

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended June 30, 2025
 (With Comparative Actual Amounts for the Year Ended June 30, 2024)

	2025		Over (Under) Budget	2024
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	2,476,262	2,467,113	(9,149)	2,231,370
Employee benefits	828,371	821,682	(6,689)	748,863
Purchased services	4,196,476	4,135,867	(60,609)	3,560,710
Supplies and materials	456,877	436,193	(20,684)	439,063
Capital expenditures	374,660	368,208	(6,452)	129,663
Other expenditures	10,500	8,796	(1,704)	9,535
Total sites and buildings	<u>8,343,146</u>	<u>8,237,859</u>	<u>(105,287)</u>	<u>7,119,204</u>
Fiscal and other fixed cost programs				
Purchased services	640,000	586,547	(53,453)	491,716
Debt service				
Principal	50,919	50,919	—	143,931
Interest and fiscal charges	10,665	10,665	—	13,354
Total debt service	<u>61,584</u>	<u>61,584</u>	<u>—</u>	<u>157,285</u>
Total expenditures	<u>87,200,704</u>	<u>86,212,839</u>	<u>(987,865)</u>	<u>79,793,824</u>
Excess (deficiency) of revenue over expenditures	(1,289,271)	3,173,483	4,462,754	5,080,435
Other financing sources				
Leases issued	—	—	—	260,656
Insurance recovery	20,000	—	(20,000)	—
Total other financing sources	<u>20,000</u>	<u>—</u>	<u>(20,000)</u>	<u>260,656</u>
Net change in fund balances	<u>\$ (1,269,271)</u>	3,173,483	<u>\$ 4,442,754</u>	5,341,091
Fund balances				
Beginning of year		<u>27,779,084</u>		<u>22,437,993</u>
End of year		<u>\$ 30,952,567</u>		<u>\$ 27,779,084</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Food Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and temporary investments	\$ 3,171,870	\$ 3,256,752
Receivables		
Due from other governmental units	107,408	464
Inventory	<u>31,983</u>	<u>45,850</u>
Total assets	<u>\$ 3,311,261</u>	<u>\$ 3,303,066</u>
Liabilities		
Salaries payable	\$ 470	\$ 364
Accounts and contracts payable	7,620	18,143
Unearned revenue	<u>105,522</u>	<u>107,243</u>
Total liabilities	113,612	125,750
Fund balances		
Nonspendable for inventory	31,983	45,850
Restricted for food service	<u>3,165,666</u>	<u>3,131,466</u>
Total fund balances	<u>3,197,649</u>	<u>3,177,316</u>
Total liabilities and fund balances	<u>\$ 3,311,261</u>	<u>\$ 3,303,066</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Food Service Special Revenue Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual

Year Ended June 30, 2025

(With Comparative Actual Amounts for the Year Ended June 30, 2024)

	2025		Over (Under) Budget	2024
	Budget	Actual		Actual
Revenue				
Local sources				
Investment earnings	\$ 69,100	\$ 147,307	\$ 78,207	\$ 124,138
Other – primarily meal sales	438,790	456,107	17,317	514,156
State sources	3,075,000	3,252,224	177,224	3,068,982
Federal sources	1,560,000	1,681,463	121,463	1,993,854
Total revenue	<u>5,142,890</u>	<u>5,537,101</u>	<u>394,211</u>	<u>5,701,130</u>
Expenditures				
Current				
Salaries	1,563,785	1,587,018	23,233	1,428,170
Employee benefits	456,062	471,224	15,162	457,335
Purchased services	144,020	98,850	(45,170)	209,254
Supplies and materials	2,581,049	2,551,938	(29,111)	2,593,254
Other expenditures	435,878	447,291	11,413	8,385
Capital outlay	580,000	360,447	(219,553)	137,654
Total expenditures	<u>5,760,794</u>	<u>5,516,768</u>	<u>(244,026)</u>	<u>4,834,052</u>
Net change in fund balances	<u>\$ (617,904)</u>	20,333	<u>\$ 638,237</u>	867,078
Fund balances				
Beginning of year		<u>3,177,316</u>		<u>2,310,238</u>
End of year		<u>\$ 3,197,649</u>		<u>\$ 3,177,316</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Community Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and temporary investments	\$ 1,547,124	\$ 1,913,484
Receivables		
Current taxes	111,715	102,350
Delinquent taxes	995	1,141
Accounts and interest	12,401	-
Due from other governmental units	<u>82,690</u>	<u>69,176</u>
Total assets	<u>\$ 1,754,925</u>	<u>\$ 2,086,151</u>
Liabilities		
Salaries payable	\$ 240,085	\$ 208,565
Accounts and contracts payable	122,895	167,865
Due to other governmental units	3,862	-
Unearned revenue	<u>387,077</u>	<u>336,251</u>
Total liabilities	<u>753,919</u>	<u>712,681</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	235,023	216,212
Unavailable revenue – delinquent taxes	<u>995</u>	<u>1,141</u>
Total deferred inflows of resources	<u>236,018</u>	<u>217,353</u>
Fund balances		
Restricted for community education	210,276	577,479
Restricted for early childhood family education	254,370	283,091
Restricted for school readiness	249,259	240,632
Restricted for community service	<u>51,083</u>	<u>54,915</u>
Total fund balances	<u>764,988</u>	<u>1,156,117</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,754,925</u>	<u>\$ 2,086,151</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Community Service Special Revenue Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2025
 (With Comparative Actual Amounts for the Year Ended June 30, 2024)

	2025		Over (Under)	2024
	Budget	Actual	Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 216,233	\$ 216,993	\$ 760	\$ 292,117
Investment earnings	50,000	82,818	32,818	88,418
Other – primarily tuition and fees	4,422,872	4,262,340	(160,532)	4,199,941
State sources	707,825	719,530	11,705	594,315
Total revenue	<u>5,396,930</u>	<u>5,281,681</u>	<u>(115,249)</u>	<u>5,174,791</u>
Expenditures				
Current				
Salaries	3,590,151	3,644,641	54,490	3,352,824
Employee benefits	978,940	978,293	(647)	894,847
Purchased services	702,890	699,584	(3,306)	566,078
Supplies and materials	283,467	273,836	(9,631)	290,832
Other expenditures	7,610	7,363	(247)	5,340
Capital outlay	88,000	69,093	(18,907)	38,003
Total expenditures	<u>5,651,058</u>	<u>5,672,810</u>	<u>21,752</u>	<u>5,147,924</u>
Net change in fund balances	<u>\$ (254,128)</u>	<u>(391,129)</u>	<u>\$ (137,001)</u>	<u>26,867</u>
Fund balances				
Beginning of year		<u>1,156,117</u>		<u>1,129,250</u>
End of year		<u>\$ 764,988</u>		<u>\$ 1,156,117</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Debt Service Fund
Comparative Balance Sheet
as of June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and temporary investments	\$ 10,364,112	\$ 9,091,531
Receivables		
Current taxes	5,924,773	5,304,293
Delinquent taxes	43,991	38,625
Accounts and interest	338	4,062
Due from other governmental units	<u>540,433</u>	<u>603,833</u>
Total assets	<u>\$ 16,873,647</u>	<u>\$ 15,042,344</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	\$ 12,398,377	\$ 11,155,047
Unavailable revenue – delinquent taxes	<u>43,991</u>	<u>38,625</u>
Total deferred inflows of resources	12,442,368	11,193,672
Fund balances		
Restricted for debt service	<u>4,431,279</u>	<u>3,848,672</u>
Total deferred inflows of resources and fund balances	<u>\$ 16,873,647</u>	<u>\$ 15,042,344</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Debt Service Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2025
 (With Comparative Actual Amounts for the Year Ended June 30, 2024)

	2025		Over (Under) Budget	2024
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 11,187,782	\$ 11,182,985	\$ (4,797)	\$ 10,539,195
Investment earnings	435,000	435,633	633	404,318
State sources	5,584,143	5,404,329	(179,814)	6,038,332
Total revenue	<u>17,206,925</u>	<u>17,022,947</u>	<u>(183,978)</u>	<u>16,981,845</u>
Expenditures				
Debt service				
Principal	12,650,000	12,650,000	–	12,310,000
Interest	3,787,965	3,787,965	–	4,278,215
Fiscal charges and other	2,850	2,375	(475)	2,850
Total expenditures	<u>16,440,815</u>	<u>16,440,340</u>	<u>(475)</u>	<u>16,591,065</u>
Net change in fund balances	<u>\$ 766,110</u>	582,607	<u>\$ (183,503)</u>	390,780
Fund balances				
Beginning of year		<u>3,848,672</u>		<u>3,457,892</u>
End of year		<u>\$ 4,431,279</u>		<u>\$ 3,848,672</u>

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OTHER DISTRICT INFORMATION

(UNAUDITED)

INDEPENDENT SCHOOL DISTRICT NO. 885

Net Position by Component
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Fiscal Year 2019</u>
Governmental activities				
Net investment in capital assets	\$ (5,015,881)	\$ (913,926)	\$ 1,307,681	\$ 8,766,938
Restricted	6,681,961	6,886,912	6,869,408	5,927,988
Unrestricted	<u>(21,324,981)</u>	<u>(38,251,813)</u>	<u>(54,535,749)</u>	<u>(40,541,506)</u>
 Total governmental activities net position	 <u>\$ (19,658,901)</u>	 <u>\$ (32,278,827)</u>	 <u>\$ (46,358,660)</u>	 <u>\$ (25,846,580)</u>

Note 1: The District implemented GASB Statement No. 75 in fiscal 2018. The District reported a change in accounting principle as a result of implementing this standard that increased unrestricted net position by \$26,032. Prior years were not restated.

Note 2: The District implemented GASB Statement No. 84 in fiscal 2020. The District reported a change in accounting principle as a result of implementing this standard that increased unrestricted net position by \$30,028. Prior years were not restated.

Note 3: The District reported a change in accounting principle in fiscal 2024 for the implementation of new accounting guidance for the capitalization of group assets that increased net position by approximately \$1.2 million. Prior years were not restated.

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
\$ (17,545,042)	\$ (13,397,188)	\$ (8,780,273)	\$ (2,843,117)	\$ 6,445,657	\$ 15,358,068
5,029,553	5,708,390	8,404,177	10,821,488	13,064,437	14,105,228
<u>(46,966,899)</u>	<u>(52,538,336)</u>	<u>(48,078,483)</u>	<u>(36,662,534)</u>	<u>(28,797,449)</u>	<u>(24,791,740)</u>
<u>\$ (59,482,388)</u>	<u>\$ (60,227,134)</u>	<u>\$ (48,454,579)</u>	<u>\$ (28,684,163)</u>	<u>\$ (9,287,355)</u>	<u>\$ 4,671,556</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2016	2017	2018	2019
Governmental activities				
Expenses				
Administration	\$ 1,730,587	\$ 2,444,507	\$ 2,376,622	\$ 1,287,664
District support services	1,031,198	1,219,347	1,370,132	1,380,567
Elementary and secondary regular instruction	29,169,041	42,759,928	43,823,930	22,282,759
Vocational education instruction	933,070	1,362,647	1,094,788	562,436
Special education instruction	5,812,450	8,386,222	8,985,258	6,330,815
Instructional support services	5,441,402	6,861,365	7,233,642	5,088,635
Pupil support services	3,831,249	4,777,519	5,113,650	4,307,684
Sites and buildings	5,801,615	6,771,151	8,616,554	8,329,761
Fiscal and other fixed cost programs	236,540	243,159	246,006	234,843
Food service	2,745,045	2,906,788	3,128,953	3,370,774
Community service	4,475,469	5,299,842	5,548,872	4,717,011
Unallocated depreciation	3,650,419	3,647,772	3,682,560	3,699,524
Interest and fiscal charges	6,386,541	6,775,896	6,704,241	5,345,012
Total governmental activities expenses	71,244,626	93,456,143	97,925,208	66,937,485
Program revenues				
Charges for services				
Administration	244,402	315,781	341,101	422,875
District support services	76,988	63,799	49,943	81,536
Elementary and secondary regular instruction	1,309,274	1,440,750	1,543,557	1,664,872
Special education instruction	261,086	-	-	-
Instructional support services	4,267	6,965	9,899	9,355
Pupil support services	27,858	31,627	114,716	126,224
Sites and buildings	4,223	40,839	121	897,586
Food service	1,866,213	1,962,574	2,041,822	2,197,303
Community service	4,032,352	4,081,633	4,169,455	4,302,828
Operating grants and contributions	4,006,428	4,538,585	13,849,570	14,940,777
Capital grants and contributions	1,116,042	1,146,300	1,980,464	2,330,532
Total governmental activities program revenues	12,949,133	13,628,853	24,100,648	26,973,888
Net (expense) revenue	(58,295,493)	(79,827,290)	(73,824,560)	(39,963,597)
General revenues and other changes in net position				
Property taxes	11,925,254	11,940,688	12,495,665	13,535,862
General grants and aids	52,020,997	54,877,299	46,197,269	45,983,683
Investment earnings and other	548,172	389,377	1,025,761	956,132
Total general revenues and other changes in net position	64,494,423	67,207,364	59,718,695	60,475,677
Change in net position	\$ 6,198,930	\$(12,619,926)	\$(14,105,865)	\$ 20,512,080

2020	2021	2022	2023	2024	2025
\$ 2,410,153	\$ 2,036,932	\$ 1,753,330	\$ 1,566,381	\$ 1,902,425	\$ 2,174,287
1,442,587	1,955,703	1,814,692	2,009,491	2,285,519	2,232,573
37,490,352	38,530,387	33,302,918	28,171,708	35,432,880	38,860,529
1,270,797	1,716,276	1,695,870	1,593,263	1,914,310	2,041,852
9,911,846	10,310,624	11,748,796	11,148,974	14,329,786	16,085,299
7,224,322	7,985,448	6,321,977	6,146,054	7,308,964	9,091,456
4,374,578	4,977,775	5,005,344	4,803,500	5,430,188	6,472,068
14,969,218	13,405,387	13,711,149	14,302,051	12,601,527	13,054,435
263,112	263,111	303,487	406,697	491,871	586,547
3,130,857	2,706,276	3,892,352	4,335,992	4,855,405	5,468,303
5,288,606	4,516,010	4,481,091	4,553,253	5,090,194	5,666,404
—	—	—	—	—	—
5,006,779	4,662,084	4,320,375	3,579,207	3,148,687	2,731,523
92,783,207	93,066,013	88,351,381	82,616,571	94,791,756	104,465,276
—	—	—	—	—	—
—	—	—	—	—	—
1,396,630	1,041,171	1,472,372	1,785,971	1,632,178	1,658,155
—	—	50,318	92,150	179,864	393,106
11,076	2,899	1,763	25,944	50,305	77,798
158,328	93,429	190,612	213,311	244,184	243,869
281,271	276,674	643,093	576,680	497,326	579,990
1,609,746	89,535	546,350	2,283,698	485,215	436,327
3,471,555	2,838,304	3,879,792	4,085,456	4,076,929	4,105,510
15,492,557	18,952,680	18,514,899	16,035,669	24,055,772	25,906,841
2,959,259	2,270,072	2,635,949	2,731,459	2,469,246	2,524,791
25,380,422	25,564,764	27,935,148	27,830,338	33,691,019	35,926,387
(67,402,785)	(67,501,249)	(60,416,233)	(54,786,233)	(61,100,737)	(68,538,889)
14,559,367	15,041,023	15,853,865	15,791,817	17,453,971	19,020,169
49,276,444	51,609,598	56,478,607	57,796,312	59,787,829	61,183,471
715,928	105,882	(143,684)	968,520	2,040,205	2,294,160
64,551,739	66,756,503	72,188,788	74,556,649	79,282,005	82,497,800
<u>\$ (2,851,046)</u>	<u>\$ (744,746)</u>	<u>\$ 11,772,555</u>	<u>\$ 19,770,416</u>	<u>\$ 18,181,268</u>	<u>\$ 13,958,911</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	Fiscal Year			
	2016	2017	2018	2019
General Fund				
Nonspendable	\$ 90,505	\$ 81,378	\$ 83,903	\$ 89,141
Restricted	1,814,534	2,173,033	2,262,010	2,212,770
Committed	31,125	33,250	41,000	49,375
Assigned	1,037,770	671,006	642,355	1,288,183
Unassigned	<u>12,714,533</u>	<u>13,934,239</u>	<u>13,997,604</u>	<u>13,302,680</u>
Total General Fund	<u>\$ 15,688,467</u>	<u>\$ 16,892,906</u>	<u>\$ 17,026,872</u>	<u>\$ 16,942,149</u>
All other governmental funds				
Nonspendable				
Special revenue funds	\$ 30,200	\$ 39,177	\$ 46,811	\$ 51,580
Restricted				
Special revenue funds	3,326,691	3,413,755	2,883,893	2,628,151
Capital Projects –				
Building Construction Fund	–	34,000,962	14,670,809	86,126
Debt service fund	<u>4,087,553</u>	<u>41,925,667</u>	<u>3,756,941</u>	<u>3,436,392</u>
Total all other governmental funds	<u>\$ 7,444,444</u>	<u>\$ 79,379,561</u>	<u>\$ 21,358,454</u>	<u>\$ 6,202,249</u>
Total all governmental funds	<u>\$ 23,132,911</u>	<u>\$ 96,272,467</u>	<u>\$ 38,385,326</u>	<u>\$ 23,144,398</u>

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
\$ 104,732	\$ 101,264	\$ 95,691	\$ 122,867	\$ 151,060	\$ 168,782
2,422,024	3,208,716	4,168,396	5,692,999	6,444,096	7,135,639
—	—	—	—	—	—
2,169,811	2,119,199	1,022,884	1,027,095	2,352,675	5,152,600
<u>11,020,211</u>	<u>9,954,436</u>	<u>13,982,508</u>	<u>15,595,032</u>	<u>18,831,253</u>	<u>18,495,546</u>
<u>\$ 15,716,778</u>	<u>\$ 15,383,615</u>	<u>\$ 19,269,479</u>	<u>\$ 22,437,993</u>	<u>\$ 27,779,084</u>	<u>\$ 30,952,567</u>
\$ 131,176	\$ 45,628	\$ 33,793	\$ 25,728	\$ 45,850	\$ 31,983
1,666,642	1,363,224	2,952,793	3,413,760	4,287,583	3,930,654
—	—	—	—	—	—
<u>3,239,216</u>	<u>3,352,958</u>	<u>3,270,388</u>	<u>3,457,892</u>	<u>3,848,672</u>	<u>4,431,279</u>
<u>\$ 5,037,034</u>	<u>\$ 4,761,810</u>	<u>\$ 6,256,974</u>	<u>\$ 6,897,380</u>	<u>\$ 8,182,105</u>	<u>\$ 8,393,916</u>
<u>\$ 20,753,812</u>	<u>\$ 20,145,425</u>	<u>\$ 25,526,453</u>	<u>\$ 29,335,373</u>	<u>\$ 35,961,189</u>	<u>\$ 39,346,483</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2016	2017	2018	2019
Revenues				
Local sources				
Property taxes	\$ 11,954,905	\$ 11,933,616	\$ 12,501,295	\$ 13,531,984
Investment earnings	190,162	161,756	980,273	919,724
Other	8,067,517	8,162,589	8,515,877	9,933,250
State sources	56,007,776	57,880,711	60,727,443	63,998,008
Federal sources	1,135,691	1,163,932	1,115,801	1,458,779
Total revenues	<u>77,356,051</u>	<u>79,302,604</u>	<u>83,840,689</u>	<u>89,841,745</u>
Expenditures				
Current				
Administration	1,715,065	1,782,063	1,766,036	1,835,946
District support services	999,177	1,056,408	1,206,850	1,511,347
Elementary and secondary regular instruction	28,709,164	30,031,866	31,808,528	33,452,481
Vocational education instruction	926,976	972,367	757,897	848,169
Special education instruction	5,760,458	6,298,488	6,944,305	8,476,832
Instructional support services	4,600,217	5,200,749	5,581,283	6,695,941
Pupil support services	3,809,196	4,255,459	4,527,162	4,751,465
Sites and buildings	5,314,193	6,232,826	9,181,819	8,072,579
Fiscal and other fixed cost programs	236,540	243,159	246,006	234,843
Food service	2,638,483	2,796,728	2,960,847	3,325,230
Community service	4,401,599	4,735,453	5,055,325	5,161,078
Capital outlay	1,809,057	2,474,282	20,063,450	15,796,376
Debt service				
Principal	63,520,000	7,380,000	43,725,000	8,517,436
Interest and fiscal charges	7,191,598	6,733,082	8,347,781	6,409,450
Total expenditures	<u>131,631,723</u>	<u>80,192,930</u>	<u>142,172,289</u>	<u>105,089,173</u>
Excess of revenues over (under) expenditures	(54,275,672)	(890,326)	(58,331,600)	(15,247,428)
Other financing sources (uses)				
Sale of capital assets	-	9,000	35	6,500
Bonds issued	36,110,000	67,040,000	-	-
Refunding debt issued	-	-	-	-
Premium on debt issued	1,477,650	6,980,882	-	-
Leases issued	-	-	-	-
Capital leases issued	-	-	444,424	-
Payment on refunded debt	-	-	-	-
Insurance recovery	-	-	-	-
Transfer in	-	998,788	-	-
Transfer (out)	-	(998,788)	-	-
Total other financing sources (uses)	<u>37,587,650</u>	<u>74,029,882</u>	<u>444,459</u>	<u>6,500</u>
Net change in fund balances	<u>\$ (16,688,022)</u>	<u>\$ 73,139,556</u>	<u>\$ (57,887,141)</u>	<u>\$ (15,240,928)</u>
Debt service as a percentage of noncapital expenditures	<u>54.0%</u>	<u>17.2%</u>	<u>42.7%</u>	<u>16.9%</u>

	2020	2021	2022	2023	2024	2025
\$	14,549,904	\$ 15,012,135	\$ 15,856,807	\$ 15,827,306	\$ 17,441,200	\$ 19,009,960
	553,349	84,824	(213,242)	854,297	1,994,496	2,265,830
	7,980,842	4,649,929	7,253,320	9,991,450	8,489,353	8,671,114
	65,223,114	66,520,091	69,953,052	71,452,928	80,630,570	84,131,074
	1,596,780	5,920,063	7,327,520	3,975,496	4,176,406	3,150,073
	89,903,989	92,187,042	100,177,457	102,101,477	112,732,025	117,228,051
	2,244,458	1,872,678	1,796,964	1,881,393	1,992,852	2,160,028
	1,382,214	2,076,393	1,831,869	1,979,657	2,426,310	2,205,960
	34,074,100	35,296,058	34,253,366	34,577,814	37,368,141	39,164,336
	1,229,890	1,670,952	1,726,354	1,852,276	1,995,049	2,033,782
	9,217,632	9,709,255	12,029,946	12,845,247	14,874,143	16,149,863
	6,736,333	7,688,185	6,258,461	6,612,780	7,825,661	8,858,379
	4,846,366	4,708,197	4,895,155	5,122,050	5,537,640	6,741,922
	8,450,823	6,668,218	7,147,659	7,652,852	7,119,204	8,237,859
	263,112	263,111	303,487	406,697	491,716	586,547
	3,037,588	2,691,841	3,948,674	4,012,788	4,696,398	5,156,321
	5,076,960	4,394,703	4,588,857	4,702,195	5,115,744	5,616,296
	954,875	15,528	9,641	277,434	175,657	429,540
	9,228,436	9,995,831	10,842,379	11,642,247	12,453,931	12,700,919
	6,098,422	5,744,479	5,541,758	4,770,285	4,294,419	3,801,005
	92,841,209	92,795,429	95,174,570	98,335,715	106,366,865	113,842,757
	(2,937,220)	(608,387)	5,002,887	3,765,762	6,365,160	3,385,294
	438	—	—	—	—	—
	—	—	—	—	—	—
	—	—	10,325,000	—	—	—
	—	—	120,089	—	—	—
	—	—	—	—	260,656	—
	—	—	—	—	—	—
	—	—	(10,295,000)	—	—	—
	—	—	228,052	43,158	—	—
	721,314	—	—	—	—	—
	(721,314)	—	—	—	—	—
	438	—	378,141	43,158	260,656	—
\$	(2,936,782)	\$ (608,387)	\$ 5,381,028	\$ 3,808,920	\$ 6,625,816	\$ 3,385,294
	16.8%	17.0%	17.2%	16.8%	16.0%	14.7%

INDEPENDENT SCHOOL DISTRICT NO. 885

Tax Capacities and Market Values
Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Net Tax Capacity</u>	<u>Taxable Market Value</u>	<u>Percent Tax Capacity of Estimated Market Value</u>
2021	\$ 24,849,665	\$ 2,345,049,675	1.1 %
2022	26,592,918	2,507,618,925	1.1
2023	28,814,085	2,711,510,975	1.1
2024	36,248,265	3,387,871,310	1.1
2025	41,932,129	3,865,671,300	1.1

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 885

Ratios of Outstanding Debt by Type
Last Five Fiscal Years

Fiscal Year	Governmental Activities					Per Capita (1)
	General Obligation Bonds	Premium (Discount) on Bonds	Financed Purchases	Lease	Total Primary Government	
2021	\$ 148,085,000	\$ 8,274,919	\$ 227,721	\$ -	\$ 156,587,640	\$ 6,108
2022	137,470,000	7,239,569	154,410	163,867	145,027,846	5,657
2023	126,030,000	6,130,676	78,533	37,497	132,276,706	5,293
2024	113,720,000	5,021,783	-	217,032	118,958,815	4,760
2025	101,070,000	3,976,254	-	166,113	105,212,367	3,827

Note: See Demographics and Economic Statistics table for source of estimated population.

Source: The District's outstanding debt can be found in the notes to basic financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 885

Ratio of Net General Obligation Bonded Debt
to Tax Capacity and Net General Obligation Bonded Debt
per Capita
Last Five Fiscal Years

Fiscal Year	Gross Bonded Debt (1)	Less Debt Service Funds on Hand	Net Bonded Debt	Net Tax Capacity	Percent of Net Debt to Net Tax Capacity	Net Bonded Debt per Capita (2)
2021	\$ 156,359,919	\$ 3,352,958	\$ 153,006,961	\$ 24,849,665	615.73 %	\$ 5,968
2022	144,709,569	3,270,388	141,439,181	26,592,918	531.87	5,517
2023	132,160,676	3,457,892	128,702,784	28,814,085	446.67	5,150
2024	118,741,783	3,848,672	114,893,111	36,248,265	316.96	4,597
2025	105,046,254	4,431,279	100,614,975	41,932,129	239.95	3,660

Note 1: Presented net of issuance premiums and discounts.

Note 2: See Demographics and Economic Statistics table for source of estimated population.

Source: The District's outstanding debt can be found in the notes to basic financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 885

Legal Debt Margin Information
Last Five Fiscal Years
(Dollars in Thousands)

	Fiscal Year				
	2021	2022	2023	2024	2025
Debt limit	\$ 351,757,451	\$ 376,142,839	\$ 406,726,646	\$ 508,180,697	\$ 579,850,695
Total debt applicable to the limit	144,732,042	134,199,612	122,572,108	109,871,328	96,638,721
Legal debt margin	<u>\$ 207,025,409</u>	<u>\$ 241,943,227</u>	<u>\$ 284,154,538</u>	<u>\$ 398,309,369</u>	<u>\$ 483,211,974</u>
Total debt applicable to the limit as a percentage of debt limit	41.15%	35.68%	30.14%	21.62%	16.67%

Legal Debt Margin Calculation for Fiscal Year 2025

Market value	\$3,865,671,300
Debt limit (15% of market value)	579,850,695
Debt applicable to the limit	
General obligation bonds	101,070,000
Less amount set aside for repayment of general obligation debt	<u>(4,431,279)</u>
Total net debt applicable to the limit	<u>96,638,721</u>
Legal debt margin	<u>\$ 483,211,974</u>

Note: Under state finance law, the District's outstanding general obligation debt should not exceed 15 percent of total market property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 885

Demographic and Economic Statistics
Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2021	25,637	6,239	3.4 %
2022	25,637	6,502	2.2
2023	24,992	6,495	3.0
2024	24,992	6,573	3.5
2025	27,492	6,679	3.7

Sources: District population is provided by the State Demographer's Office.

Enrollment information from district records.

Minnesota Department of Employment and Economic Development as of June in that respective year.

INDEPENDENT SCHOOL DISTRICT NO. 885

Student Enrollment
Last Ten Fiscal Years

Year Ended June 30,	Average Daily Membership (ADM)					Total Pupil Units
	Early Childhood (2)	Kindergarten	Elementary	Secondary	Total	
2016	43	410	2,837	2,761	6,051	6,604
2017	74	459	2,816	2,863	6,212	6,783
2018	67	413	2,831	2,973	6,284	6,878
2019	71	433	2,802	3,115	6,421	7,044
2020	58	404	2,814	3,156	6,431	7,063
2021	55	380	2,645	3,159	6,239	6,871
2022	60	456	2,770	3,216	6,502	7,145
2023	58	437	2,819	3,180	6,495	7,131
2024	81	420	2,846	3,225	6,573	7,218
2025 (1)	98	423	2,947	3,211	6,679	7,321

Year Ended June 30,	Students Served		
	Resident	Nonresident	Total
2016	5,318	734	6,051
2017	5,291	921	6,212
2018	5,286	998	6,284
2019	5,284	1,137	6,421
2020	5,167	1,265	6,431
2021	4,919	1,320	6,239
2022	5,067	1,435	6,502
2023	5,046	1,449	6,495
2024	5,098	1,475	6,573
2025 (1)	5,184	1,495	6,679

Year Ended June 30,	Resident Students		
	Served In District	Resident Out (3)	Total
2016	5,318	307	5,625
2017	5,291	350	5,641
2018	5,286	356	5,641
2019	5,284	366	5,651
2020	5,167	361	5,528
2021	4,919	366	5,285
2022	5,067	339	5,406
2023	5,046	351	5,397
2024	5,098	364	5,462
2025 (1)	5,184	354	5,538

Note 1: Student enrollment for the latest fiscal year is estimated.

Note 2: Early Childhood ADM only includes students with an IEP/IFSP or are evaluated for Special Education.

Note 3: Does not include choices like private schools and homeschooling.

INDEPENDENT SCHOOL DISTRICT NO. 885

Principal Employers
Current Year
as of June 30, 2025

Employer	City	Employees	Rank
ISD No. 885, St. Michael-Albertville Schools (1)	Both	807	1
J&B Group	St. Michael	615	2
PCiRoads (2)	St. Michael	397	3
Rachel Contracting (3)	St. Michael	250	4
Coborn's	Albertville	198	5
Advanced Volumentric Alliance, LLC	Albertville	156	6
Oldcastle Building Envelopes	Albertville	150	7
Cub Foods	St. Michael	145	8
B&D Plumbing & Heating	St. Michael	139	9
Marksman Metals Company, Inc.	St. Michael	100	10
Total		<u>2,957</u>	
Total ISD No. 885 population (see the Schedule of Demographic and Economic Statistics)		<u>27,492</u>	
Percent of principal employers to total ISD No. 885 population		<u>10.8%</u>	

(1) District employees is full-time equivalent. All full-time equivalents are based on an 8-hour day.

(2) Includes all workers (seasonal construction) for 2024.

(3) Rachel Contracting is an average. Employment is higher during construction season.

Source: See Demographics and Economic Statistics table for source of estimated population.

Combined information from City of St. Michael and City of Albertville Annual Comprehensive Financial Reports.

City of Albertville – Source: Northland Securities

City of St. Michael – Source: Employee figures from survey performed by its staff.

INDEPENDENT SCHOOL DISTRICT NO. 885

School Building Information
as of June 30, 2025

Facility	Constructed	Acres	Square Footage
Elementary Schools			
Albertville Primary			
Original	1973	14.38	36,960
Additions	1988, 1999, 2018		48,745
Big Woods			
Original	2004	34.60	125,265
Fieldstone			
Original	2007	19.17	125,265
St. Michael			
Original	1966	15.83	63,259
Additions	1974, 1991, 2003		55,176
Middle Schools			
East			
Original	1999	58.85	171,227
Addition	2003		58,885
West			
Original	1992	55.84	203,224
Additions	1999, 2003		54,272
High School Campus			
STMA High School			
Original	2009	121.11	425,000
Addition	2018		17,035
All Purpose Facility			
Original	2018		88,000
Community Education			
Original	1952	10.66	36,189
Additions	1974, 1988		19,993
STMA Arena			
Addition	2018	1.92	34,715

Note: The arena is also partially on city property.

Source: Information was obtained from district records.

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OTHER REQUIRED REPORTS

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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 School Board and Management of
Independent School District No. 885
Albertville, 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. 885 (the District) 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 20, 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

(continued)

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*.

PURPOSE OF THIS REPORT

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

Respectfully submitted,

Handwritten signature in black ink that reads "LB Carlson, LLP".

LB CARLSON, LLP
Minneapolis, Minnesota

November 20, 2025

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 885
Albertville, 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. 885 (the District) 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 20, 2025.

MINNESOTA 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 the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters. However, our audit 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 THIS 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 report is not suitable for any other purpose.

Respectfully submitted,



LB CARLSON, LLP
Minneapolis, Minnesota

November 20, 2025

INDEPENDENT SCHOOL DISTRICT NO. 885

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2025

	Audit	UFARS	Audit – UFARS
General Fund			
Total revenue	\$ 89,386,322	\$ 89,386,324	\$ (2)
Total expenditures	\$ 86,212,839	\$ 86,212,839	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ 168,782	\$ 168,782	\$ –
Restricted			
401 Student activities	\$ –	\$ –	\$ –
402 Scholarships	\$ –	\$ –	\$ –
403 Staff development	\$ 1,683,187	\$ 1,683,187	\$ –
407 Capital projects levy	\$ –	\$ –	\$ –
408 Cooperative revenue	\$ –	\$ –	\$ –
412 Literacy incentive aid	\$ 290,112	\$ 290,112	\$ –
414 Operating debt	\$ –	\$ –	\$ –
416 Levy reduction	\$ –	\$ –	\$ –
417 Taconite building maintenance	\$ –	\$ –	\$ –
420 American Indian education aid	\$ 22,889	\$ 22,889	\$ –
424 Operating capital	\$ 608,963	\$ 608,963	\$ –
426 \$25 taconite	\$ –	\$ –	\$ –
427 Disabled accessibility	\$ –	\$ –	\$ –
428 Learning and development	\$ –	\$ –	\$ –
434 Area learning center	\$ –	\$ –	\$ –
435 Contracted alternative programs	\$ –	\$ –	\$ –
436 State approved alternative program	\$ –	\$ –	\$ –
437 Quality compensation	\$ 437,367	\$ 437,367	\$ –
438 Gifted and talented	\$ –	\$ –	\$ –
439 English learner	\$ –	\$ –	\$ –
440 Teacher development and evaluation	\$ –	\$ –	\$ –
441 Basic skills programs	\$ –	\$ –	\$ –
443 School library aid	\$ –	\$ –	\$ –
448 Achievement and integration	\$ –	\$ –	\$ –
449 Safe schools levy	\$ 199,003	\$ 199,003	\$ –
451 QZAB payments	\$ –	\$ –	\$ –
452 OPEB liability not in trust	\$ –	\$ –	\$ –
453 Unfunded severance and retirement levy	\$ –	\$ –	\$ –
456 Literacy aid	\$ 163,263	\$ 163,263	\$ –
457 Teacher compensation for READ Act training	\$ 24,459	\$ 24,459	\$ –
459 Basic skills extended time	\$ –	\$ –	\$ –
467 Long-term facilities maintenance	\$ 3,297,920	\$ 3,297,920	\$ –
471 Student support personnel	\$ –	\$ –	\$ –
472 Medical Assistance	\$ 408,476	\$ 408,476	\$ –
464 Restricted fund balance	\$ –	\$ –	\$ –
475 Title VII – impact aid	\$ –	\$ –	\$ –
476 PILT	\$ –	\$ –	\$ –
Committed			
418 Committed for separation	\$ –	\$ –	\$ –
461 Committed fund balance	\$ –	\$ –	\$ –
Assigned			
462 Assigned fund balance	\$ 5,152,600	\$ 5,152,600	\$ –
Unassigned			
422 Unassigned fund balance	\$ 18,495,546	\$ 18,495,546	\$ –
Food Service			
Total revenue	\$ 5,537,101	\$ 5,537,101	\$ –
Total expenditures	\$ 5,516,768	\$ 5,516,768	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ 31,983	\$ 31,983	\$ –
Restricted			
452 OPEB liability not in trust	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 3,165,666	\$ 3,165,666	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
Community Service			
Total revenue	\$ 5,281,681	\$ 5,281,680	\$ 1
Total expenditures	\$ 5,672,810	\$ 5,672,810	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
426 \$25 taconite	\$ –	\$ –	\$ –
431 Community education	\$ 210,276	\$ 210,276	\$ –
432 ECFE	\$ 254,370	\$ 254,370	\$ –
437 Quality compensation	\$ –	\$ –	\$ –
440 Teacher development and evaluation	\$ –	\$ –	\$ –
444 School readiness	\$ 249,259	\$ 249,259	\$ –
447 Adult basic education	\$ –	\$ –	\$ –
452 OPEB liability not in trust	\$ –	\$ –	\$ –
456 Literacy aid	\$ –	\$ –	\$ –
457 Teacher compensation for READ Act training	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 51,083	\$ 51,083	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –

INDEPENDENT SCHOOL DISTRICT NO. 885

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2025

	Audit	UFARS	Audit – UFARS
Building Construction			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
407 Capital projects levy	\$ –	\$ –	\$ –
413 Projects funded by COP	\$ –	\$ –	\$ –
467 Long-term facilities maintenance	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
Debt Service			
Total revenue	\$ 17,022,947	\$ 17,022,947	\$ –
Total expenditures	\$ 16,440,340	\$ 16,440,340	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
425 Bond refundings	\$ –	\$ –	\$ –
433 Maximum effort loan	\$ –	\$ –	\$ –
451 QZAB payments	\$ –	\$ –	\$ –
467 Long-term facilities maintenance	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 4,431,279	\$ 4,431,279	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
Trust			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
401 Student activities	\$ –	\$ –	\$ –
402 Scholarships	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
Custodial Fund			
Total revenue	\$ 311,361	\$ 311,361	\$ –
Total expenditures	\$ 309,981	\$ 309,981	\$ –
401 Student activities	\$ –	\$ –	\$ –
402 Scholarships	\$ –	\$ –	\$ –
448 Achievement and integration	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 36,135	\$ 36,135	\$ –
Internal Service			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
OPEB Revocable Trust Fund			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
OPEB Irrevocable Trust Fund			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
OPEB Debt Service Fund			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
425 Bond refundings	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ –	\$ –	\$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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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

\$21,000,000
INDEPENDENT SCHOOL DISTRICT NO. 885
(ST. MICHAEL-ALBERTVILLE)
WRIGHT COUNTY, MINNESOTA
GENERAL OBLIGATION SCHOOL BUILDING BONDS
SERIES 2026A

We have acted as bond counsel to Independent School District No. 885 (St. Michael-Albertville), Wright 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 _____, 2026 and issued in the original aggregate principal amount of \$21,000,000. 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 (including any original issue discount allocable to an owner thereof) 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 1, 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.

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.

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following pages)

\$ _____
INDEPENDENT SCHOOL DISTRICT NO. 885
(ST. MICHAEL-ALBERTVILLE)
WRIGHT 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. 885 (St. Michael-Albertville), Wright 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. 885 (St. Michael-Albertville), Wright 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. Provision of Annual Financial Information and Audited Financial Statements.

(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. 885 (ST. MICHAEL-ALBERTVILLE), WRIGHT COUNTY, MINNESOTA

Board Chair

Clerk

TERMS OF PROPOSAL

**\$21,000,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2026A
INDEPENDENT SCHOOL DISTRICT NO. 885 (ST. MICHAEL-ALBERTVILLE), MINNESOTA**

Proposals for the purchase of \$21,000,000* General Obligation School Building Bonds, Series 2026A (the "Bonds") of Independent School District No. 885 (St. Michael-Albertville), 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 March 16, 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 6:00 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 April 9, 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:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2027	\$410,000	2034	\$475,000	2041	\$1,915,000
2028	120,000	2035	475,000	2042	1,995,000
2029	--	2036	475,000	2043	2,080,000
2030	--	2037	475,000	2044	2,170,000
2031	--	2038	1,685,000	2045	2,270,000
2032	--	2039	1,770,000	2046	2,370,000
2033	475,000	2040	1,840,000		

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, 2036 shall be subject to optional redemption prior to maturity on February 1, 2035 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 April 9, 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 \$21,000,000 plus accrued interest on the principal sum of \$21,000,000 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 \$420,000 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 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.

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds shall not be "qualified tax-exempt obligations" pursuant to 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 (5th) 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 (5th) 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. 885
(St. Michael-Albertville), Minnesota

PROPOSAL FORM

The School Board
Independent School District No. 885 (St. Michael-Albertville), Minnesota (the "District")

March 16, 2026

RE: \$21,000,000* General Obligation School Building Bonds, Series 2026A (the "Bonds")
DATED: April 9, 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 \$21,000,000) 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	2034	_____	% due	2041
_____	% due	2028	_____	% due	2035	_____	% due	2042
--	% due	2029	_____	% due	2036	_____	% due	2043
--	% due	2030	_____	% due	2037	_____	% due	2044
--	% due	2031	_____	% due	2038	_____	% due	2045
--	% due	2032	_____	% due	2039	_____	% due	2046
_____	% due	2033	_____	% due	2040			

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 \$420,000 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. 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 April 9, 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 April 9, 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. 885 (St. Michael-Albertville), Minnesota, on March 16, 2026.

By: _____ By: _____
Title: _____ Title: _____