

# PRELIMINARY OFFICIAL STATEMENT DATED MAY 21, 2026

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on noncorporate taxpayers by Section 55 of the Code, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for Minnesota alternative minimum tax purposes. Interest on the Bonds may, however, be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code) and is included in net income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions. See "TAX CONSIDERATIONS" herein.

**New Issue**

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

## INDEPENDENT SCHOOL DISTRICT NO. 535 (ROCHESTER PUBLIC SCHOOLS), MINNESOTA (Olmsted and Wabasha Counties)

(Minnesota School District Credit Enhancement Program)

### \$33,800,000\* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2026A

**PROPOSAL OPENING:** June 2, 2026, 9:30 A.M., C.T.

**CONSIDERATION:** June 2, 2026, 5:30 P.M., C.T.

**PURPOSE/AUTHORITY/SECURITY:** The \$33,800,000\* General Obligation Facilities Maintenance Bonds, Series 2026A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and Minnesota Statutes, Section 123B.595, as amended, by Independent School District No. 535 (Rochester Public Schools), Minnesota (the "District"), to provide funds for health and safety and deferred capital maintenance projects included in the District's ten-year facility plan approved by the Commissioner of Education. 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 Dorsey & Whitney LLP, Minneapolis, Minnesota.

**DATE OF BONDS:** June 25, 2026

**MATURITY:** February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2028	\$455,000	2033	\$720,000	2038	\$920,000
2029	480,000	2034	755,000	2039	955,000
2030	490,000	2035	800,000	2040	2,810,000
2031	635,000	2036	830,000	2041	11,430,000
2032	680,000	2037	875,000	2042	10,965,000

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

**TERM BONDS:** See "Term Bond Option" herein.

**INTEREST:** February 1, 2027 and semiannually thereafter.

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

**MINIMUM PROPOSAL:** \$33,800,000.

**GOOD FAITH DEPOSIT:** A good faith deposit in the amount of \$676,000 shall be made by the winning bidder by wire transfer of funds.

**PAYING AGENT:** Bond Trust Services Corporation.

**BOND COUNSEL:** Dorsey & Whitney LLP.

**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 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.



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## 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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## ROCHESTER PUBLIC SCHOOLS SCHOOL BOARD

		<u>Term Expires</u>
Cathy Nathan	Board Chair	January 2027
Julie Workman	Vice Chair	January 2027
Stephanie Whitehorn	Clerk	January 2029
Karen MacLaughlin	Treasurer	January 2029
Don Barlow	Member	January 2029
Justin Cook	Member	January 2027
Jean Marvin	Member	January 2027

### ADMINISTRATION

Kent Pekel, Superintendent of Schools

Andy Krogstad, Director of Finance

### PROFESSIONAL SERVICES

Dorsey & Whitney LLP, 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. 535 (Rochester Public Schools), Minnesota (the "District") and the issuance of its \$33,800,000\* General Obligation Facilities Maintenance 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 June 2, 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](http://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 June 25, 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 2028 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

The Bonds maturing on and after February 1, 2035 are be subject to redemption and prepayment at the option of the District, in whole or in part, in such order as the District shall determine and within a maturity by lot as selected by the Registrar in multiples of \$5,000, on February 1, 2034, and on any date thereafter, at a price equal to the principal amount thereof and accrued interest to the date of redemption.

The District is required to cause notice of the call for redemption thereof to be published as required by law and, at least thirty (30) days prior to the designated redemption date, cause notice of the call for redemption to be mailed, by first class mail, to the registered owners of any Bonds to be redeemed at their addresses as they appear on the bond register, but no defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of any Bond not affected by such defect or failure.

Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the District shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon partial redemption of any Bond, a new Bond or Bonds will be delivered to the registered owner without charge, representing the remaining principal amount outstanding.

## AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and Minnesota Statutes, Section 123B.595, as amended, by the District, to provide funds for health and safety and deferred capital maintenance projects included in the District's ten-year facility plan approved by the Commissioner of Education.

## ESTIMATED SOURCES AND USES\*

### Sources

Par Amount of Bonds	\$33,800,000	
Reoffering Premium	<u>448,560</u>	
<b>Total Sources</b>		<b>\$34,248,560</b>

### Uses

Total Underwriter's Discount (1.000%)	\$338,000	
Costs of Issuance	200,425	
Capitalized Interest	891,692	
Deposit to Construction Fund	<u>32,818,443</u>	
<b>Total Uses</b>		<b>\$34,248,560</b>

\*Preliminary, subject to change.

## SECURITY

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

## **RATING**

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

The District currently has a "AA"/Stable outlook underlying rating from S&P and a "Aa2" underlying rating from Moody's Investors Service; however, the District will be requesting an underlying rating only from S&P 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 April 21, 2026 and the Award Resolution (collectively, 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.

In the Award Resolution, 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. Ehlers is currently engaged as dissemination agent for the District.

## **LEGAL OPINION**

An opinion in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP ("Bond Counsel"), Minneapolis, Minnesota, bond counsel to the District.

## TAX CONSIDERATIONS

The following is a summary of certain U.S. federal and Minnesota income tax considerations relating to the purchase, ownership, and disposition of the Bonds. This summary is based on the U.S. Internal Revenue Code of 1986 (the "Code") and the Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service (the "IRS"), all as of the date hereof and all of which are subject to change, possibly with retroactive effect. Any such change could adversely affect the matters discussed below, including the tax exemption of interest on the Bonds. The District has not sought and will not seek any rulings from the IRS regarding the matters discussed below, and there can be no assurance the IRS or a court will not take a contrary position regarding these matters.

**Prospective purchasers of Bonds should consult their own tax advisors with respect to applicable federal, state, and local tax rules, and any pending or proposed legislation or regulatory or administrative actions, relating to the Bonds based on their own particular circumstances.**

This summary is for general information only and is not intended to constitute a complete analysis of all tax considerations relating to the purchase, ownership, and disposition of Bonds. It does not address the application of the alternative minimum tax imposed on noncorporate taxpayers and applicable corporations (as defined in Section 59(k) of the Code) or the additional tax on net investment income, nor does it address the U.S. federal estate and gift tax or any state, local, or non-U.S. tax consequences except with respect to Minnesota income tax to the extent expressly specified herein. This summary is limited to consequences to U.S. holders that purchase the Bonds for cash at original issue and hold the Bonds as "capital assets" (generally, property held for investment).

This discussion does not address all aspects of U.S. federal income or state taxation that may be relevant to particular holders of Bonds in light of their specific circumstances or the tax considerations applicable to holders that may be subject to special income tax rules, such as: holders subject to special tax accounting rules under Section 451(b) of the Code; insurance companies; brokers, dealers, or traders in stocks, securities, or currencies or notional principal contracts; foreign corporations subject to the branch profits tax; holders receiving payments in respect of the Bonds through foreign entities; and S corporations, partnerships, or other pass-through entities or investors therein.

For purposes of this discussion, the "issue price" of a maturity of Bonds is the first price at which a substantial amount of Bonds of that maturity is sold for cash to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers.

### ***Tax-Exempt Interest***

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes under Section 103 of the Code, (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on noncorporate taxpayers by Section 55 of the Code, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for Minnesota alternative minimum tax purposes. Interest on the Bonds may, however, be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code) and is included in net income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions.

The Code establishes certain requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Bond proceeds and the facilities financed or refinanced with such proceeds and restrictions on the investment of Bond proceeds and other amounts. The District has made certain representations and has covenanted to comply with certain restrictions, conditions, and requirements designed to ensure interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or noncompliance with these covenants may cause interest on the Bonds to be included in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Bond Counsel has not independently verified the accuracy of these representations and will not verify the continuing compliance with these covenants. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds is included in federal gross income or in Minnesota taxable net income.

### ***Original Issue Discount***

Bonds may be issued with original issue discount ("OID"). A Bond will be treated as issued with OID (a "Discount Bond") if its "stated redemption price at maturity" (i.e., the sum of all amounts payable on the Bond other than payments of qualified stated interest) exceeds its issue price. OID that accrues to a holder of a Discount Bond is excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts to the same extent that stated interest on such Discount Bond would be so excluded. The amount of OID that accrues on a Discount Bond is added to the holder's federal and Minnesota tax bases. OID is taxable under the Minnesota franchise tax on corporations and financial institutions.

OID on a Discount Bond generally accrues pursuant to a constant-yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of OID that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Discount Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Discount Bonds, over (2) the amount of stated interest actually payable. For this purpose, the adjusted issue price is determined by adding to the issue price for such Discount Bonds the OID that is treated as having accrued during all prior accrual periods. If a Discount Bond is sold or otherwise disposed of between compounding dates, then the original issue discount that would have accrued for that accrual period for federal income tax purposes is allocated ratably to the days in that accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the issue price plus accrued interest and accrued OID, the amount of OID that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of the Discount Bond. If the excess is greater than the amount of remaining OID, the basis reduction rules for amortizable bond premium may result in taxable gain upon sale or other disposition of the Bonds, even if the Bonds are sold, redeemed, or retired for an amount equal to or less than their cost.

It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual and may be deemed to accrue differently than under federal law.

### ***Market Discount***

If a Bond is purchased for a cost that is less than the Bond's issue price (plus accrued original issue discount, if any), the purchaser may be treated as having purchased the Bond with market discount (unless a statutory *de minimis* rule applies). Market discount is treated as ordinary income and generally is recognized on the maturity or earlier disposition of the Bond (to the extent that the gain realized does not exceed the accrued market discount on the Bond).

### ***Bond Premium***

A holder that acquires a Bond for an amount in excess of its stated redemption price at maturity generally must, from time to time, reduce the holder's federal and Minnesota tax bases for the Bond. Premium generally is amortized for federal income tax purposes and Minnesota income and franchise tax purposes on the basis of a Bond holder's constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, holders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes or for purposes of the Minnesota income tax applicable to individuals, estates, and trusts.

### ***Related Tax Considerations***

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the Bonds into account in determining the taxability of such benefits.

Section 265(a) of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. In the case of a financial institution, generally, no deduction is allowed under Section 265(b) of the Code for that portion of the holder's interest expense that is allocable to interest on tax-exempt obligations, such as the Bonds, unless the obligations are "qualified tax-exempt obligations." Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds. The Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Income or loss on the Bonds may be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations.

The ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may affect a holder's federal, state, or local tax liability in some additional circumstances. The nature and extent of these other tax consequences depends upon the particular tax status of the holder and the holder's other items of income or deduction.

### ***Sale or Other Disposition***

A holder will generally recognize gain or loss on the sale, exchange, redemption, retirement, or other disposition of a Bond equal to the difference between (i) the amount realized less amounts attributable to any accrued but unpaid stated interest and (ii) the holder's adjusted tax basis in the Bond. The amount realized includes the cash and the fair market value of any property received by the holder in exchange for the Bond. A holder's adjusted tax basis in a Bond generally will be equal to the amount that the holder paid for the Bond, increased by any accrued original issue discount with respect to the Bond and reduced by the amount of any amortized bond premium on the Bond. Except to the extent attributable to market discount (which will be taxable as ordinary income to the extent not previously included in income), any gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holder held the Bond for more than one year. Long-term capital gains recognized by certain non-corporate persons, including individuals, generally are taxable at a reduced rate. The deductibility of capital losses is subject to significant limitations.

## ***Information Reporting and Backup Withholding***

Payments of interest on the Bonds (including any allocable bond premium or accrued original issue discount) and proceeds from the sale or other disposition of the Bonds are expected to be reported to the IRS as required under applicable Treasury Regulations. Backup withholding will apply to these payments if the holder fails to provide an accurate taxpayer identification number and certification that it is not subject to backup withholding (generally on an IRS Form W-9) or otherwise fails to comply with the applicable backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. Certain holders are exempt from information reporting. Potential holders should consult their own tax advisors regarding qualification for an exemption and the procedures for obtaining such an exemption.

## **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 BerganKDV, Ltd., St. Cloud, 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.

**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 bond 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 United States 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	2023/24	2024/25	2025/26
Residential homestead <sup>1</sup>	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 <sup>1</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,150,000 - 0.50% <sup>2</sup> Over \$2,150,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$3,500,000 - 0.50% <sup>2</sup> Over \$3,500,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$3,500,000 - 0.50% <sup>2</sup> Over \$3,500,000 - 1.00% <sup>2</sup>
Agricultural non-homestead	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>
Seasonal recreational residential	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>
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 <sup>4</sup> - 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 <sup>4</sup> - 1.25% Affordable Rental: - 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 <sup>4</sup> - 1.25% Affordable Rental - 0.25%
Industrial/Commercial/Utility <sup>5</sup>	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%

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

<sup>2</sup> Applies to land and buildings. Exempt from referendum market value tax.

<sup>3</sup> Exempt from referendum market value tax.

<sup>4</sup> 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.

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

## CURRENT PROPERTY VALUATIONS

**2025/26 Economic Market Value** \$25,976,475,982<sup>1</sup>

### 2025/26 Assessor's Estimated Market Value

	<b>Olmsted County</b>	<b>Wabasha County</b>	<b>Total</b>
Real Estate	\$23,920,170,800	\$92,772,300	\$24,012,943,100
Personal Property	<u>114,000,800</u>	<u>0</u>	<u>114,000,800</u>
Total Valuation	<u><u>\$24,034,171,600</u></u>	<u><u>\$92,772,300</u></u>	<u><u>\$24,126,943,900</u></u>

### 2025/26 Net Tax Capacity

	<b>Olmsted County</b>	<b>Wabasha County</b>	<b>Total</b>
Real Estate	\$277,414,983	\$720,732	\$278,135,715
Personal Property	<u>2,251,294</u>	<u>0</u>	<u>2,251,294</u>
Net Tax Capacity	\$279,666,277	\$720,732	\$280,387,009
Less:			
Tax Increment Captured Tax Capacity	(10,174,950)	0	(10,174,950)
Power Line Adjustment <sup>2</sup>	<u>(12,514)</u>	<u>0</u>	<u>(12,514)</u>
Taxable Net Tax Capacity	<u><u>\$269,478,813</u></u>	<u><u>\$720,732</u></u>	<u><u>\$270,199,545</u></u>

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<sup>1</sup> According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the District was about 93.04% 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 \$25,976,475,982.

<sup>2</sup> 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.

## 2025/26 NET TAX CAPACITY BY CLASSIFICATION

	<b>2025/26 Net Tax Capacity</b>	<b>Percent of Total Net Tax Capacity</b>
Residential homestead	\$134,341,574	47.91%
Agricultural	7,188,814	2.56%
Commercial/industrial	83,145,615	29.65%
Public utility	81,839	0.03%
Railroad operating property	104,260	0.04%
Non-homestead residential	52,772,121	18.82%
Commercial & residential seasonal/rec.	501,492	0.18%
Personal property	<u>2,251,294</u>	<u>0.80%</u>
 Total	 <u><u>\$280,387,009</u></u>	 <u><u>100.00%</u></u>

## TREND OF VALUATIONS

<b>Levy Year</b>	<b>Assessor's Estimated Market Value</b>	<b>Assessor's Taxable Market Value</b>	<b>Net Tax Capacity<sup>1</sup></b>	<b>Taxable Net Tax Capacity<sup>2</sup></b>	<b>Percent Increase/Decrease in Estimated Market Value</b>
2021/22	\$17,529,230,000	\$16,913,206,700	\$205,149,025	\$197,858,121	5.01%
2022/23	20,155,046,900	19,638,183,700	236,673,604	227,206,019	14.98%
2023/24	21,624,533,700	21,124,759,200	253,638,552	243,698,404	7.29%
2024/25	22,587,480,300	21,827,401,137	260,598,684	250,660,971	4.45%
2025/26	24,126,943,900	23,394,448,364	280,387,009	270,199,545	6.82%

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<sup>1</sup> Net Tax Capacity includes tax increment and power line values.

<sup>2</sup> Taxable Net Tax Capacity does not include tax increment or power line values.

## LARGEST TAXPAYERS

Taxpayer	Type of Property	2025/26 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Mayo Clinic	Commercial	\$12,674,534	4.52%
Mayo Foundation	Commercial	4,614,257	1.65%
Knickerbocker Berkman LLC	Apartments	1,603,001	0.57%
Minnesota Energy Resources	Utility	1,194,536	0.43%
Apache Mall LLC	Commercial	953,852	0.34%
Regency Consolidated Residential LLC	Apartments	853,983	0.30%
Legacy Fund I LLC	Commercial	852,984	0.30%
Olmsted Medical Center	Commercial	715,664	0.26%
Rochester West Campus LLC	Industrial/Agricultural	702,391	0.25%
THF-G Rochester Joint Venture	Commercial	<u>676,292</u>	<u>0.24%</u>
Total		\$24,841,494	8.86%

District's Total 2025/26 Net Tax Capacity                      \$280,387,009

**Source:** Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Largest Taxpayers have been furnished by Olmsted and Wabasha Counties.

## DEBT

### DIRECT DEBT<sup>1</sup>

#### General Obligation Debt (see schedule following)

Total G.O. debt secured by taxes and state aids<sup>2</sup> (includes the Bonds)\*                      \$329,320,000

\*Preliminary, subject to change.

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<sup>1</sup> Outstanding debt is as of the dated date of the Bonds.

<sup>2</sup> Based upon the Long Term Facilities Maintenance Revenue formula, agricultural land valuation and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

**Lease Purchase Obligations (see schedule following)**

Total lease purchase obligations paid by annual appropriations<sup>1</sup> \$4,200,000

**Special Obligations (see schedule following)**

Total lease purchase obligations paid by tax levy for rental payments<sup>1</sup> \$10,765,000

**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 plans to issue approximately \$44,235,000 General Obligation Facilities Maintenance Bonds for additional financing in March 2027. Additionally, the District may also refinance certain outstanding general obligations, although the feasibility and timing of such borrowing is not yet determined.

**STATE AID FOR DEBT SERVICE**

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

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

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

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<sup>1</sup> Non-general obligation debt has not been included in the debt ratios.

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.

The District's \$7,945,000 Certificates of Participation, Series 2017A, do **not** qualify for the agricultural credit pursuant to Minnesota Statutes.

**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:

2025/26 Economic Market Value	\$25,976,475,982
Multiply by 15%	<u>0.15</u>
Statutory Debt Limit	\$3,896,471,397
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(329,320,000)
Less: Long-Term Debt Outstanding Being Paid Solely from Annual Appropriations	<u>(4,200,000)</u>
Unused Debt Limit*	<u><u>\$3,562,951,397</u></u>

\*Preliminary, subject to change.

Independent School District No. 535 (Rochester Public Schools), Minnesota  
 Schedule of Bonded Indebtedness  
 General Obligation Debt Secured by Tax Levy for Rental Payments  
 (As of 06/25/2026)

	Full Term Certificates of Participation Series 2012B		Full Term Certificates of Participation Series 2014A		Full Term Certificates of Participation Series 2025B							
<b>Dated</b>	12/03/2012		03/19/2014		06/12/2025							
<b>Amount</b>	\$16,455,000		\$6,560,000		\$6,735,000							
<b>Maturity</b>	02/01		02/01		04/01							
<b>Fiscal Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Principal</b>	<b>Total Interest</b>	<b>Total P &amp; I</b>	<b>Principal Outstanding</b>	<b>% Paid</b>	<b>Fiscal Year Ending</b>
<b>2027</b>	1,240,000	88,519	345,000	108,708	2,200,000	223,750	3,785,000	420,976	4,205,976	6,980,000	35.16%	<b>2027</b>
<b>2028</b>	1,275,000	51,319	355,000	97,495	2,275,000	113,750	3,905,000	262,564	4,167,564	3,075,000	71.44%	<b>2028</b>
<b>2029</b>	680,000	17,850	365,000	85,958			1,045,000	103,808	1,148,808	2,030,000	81.14%	<b>2029</b>
<b>2030</b>			370,000	74,095			370,000	74,095	444,095	1,660,000	84.58%	<b>2030</b>
<b>2031</b>			395,000	60,590			395,000	60,590	455,590	1,265,000	88.25%	<b>2031</b>
<b>2032</b>			410,000	46,173			410,000	46,173	456,173	855,000	92.06%	<b>2032</b>
<b>2033</b>			415,000	31,208			415,000	31,208	446,208	440,000	95.91%	<b>2033</b>
<b>2034</b>			440,000	16,060			440,000	16,060	456,060	0	100.00%	<b>2034</b>
	3,195,000	157,688	3,095,000	520,285	4,475,000	337,500	10,765,000	1,015,473	11,780,473			

**Independent School District No. 535 (Rochester Public Schools), Minnesota**  
**Schedule of Bonded Indebtedness**  
**General Obligation Debt Secured by Taxes**  
**(As of 06/25/2026)**

	Alternative Facilities Bonds Series 2013A		Alternative Facilities Bonds Series 2015A		School Building Refunding Bonds Series 2015B		Alternative Facilities Bonds Series 2016A		Facilities Maintenance Bonds Series 2016C	
<b>Dated</b>	03/28/2013		05/13/2015		05/13/2015		03/17/2016		08/11/2016	
<b>Amount</b>	\$14,870,000		\$4,180,000		\$9,755,000		\$11,295,000		\$13,605,000	
<b>Maturity</b>	02/01		02/01		02/01		02/01		02/01	
<b>Fiscal Year</b>										
<b>Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
<b>2027</b>	2,105,000	115,625	205,000	71,513	1,135,000	69,150	585,000	201,750	695,000	260,900
<b>2028</b>	2,100,000	63,000	210,000	65,363	1,170,000	35,100	605,000	184,200	725,000	233,100
<b>2029</b>			215,000	59,063			625,000	166,050	740,000	214,975
<b>2030</b>			220,000	52,613			640,000	147,300	755,000	196,475
<b>2031</b>			225,000	46,013			660,000	128,100	780,000	177,600
<b>2032</b>			235,000	39,263			680,000	108,300	795,000	157,125
<b>2033</b>			240,000	32,213			700,000	87,900	820,000	135,263
<b>2034</b>			250,000	24,713			720,000	66,900	845,000	111,688
<b>2035</b>			255,000	16,900			745,000	45,300	870,000	86,338
<b>2036</b>			265,000	8,613			765,000	22,950	895,000	59,150
<b>2037</b>									925,000	30,063
<b>2038</b>										
<b>2039</b>										
<b>2040</b>										
<b>2041</b>										
<b>2042</b>										
	4,205,000	178,625	2,320,000	416,263	2,305,000	104,250	6,725,000	1,158,750	8,845,000	1,662,675

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**Independent School District No. 535 (Rochester Public Schools), Minnesota**  
**Schedule of Bonded Indebtedness continued**  
**General Obligation Debt Secured by Taxes**  
**(As of 06/25/2026)**

	Facilities Maintenance Bonds Series 2017B		Facilities Maintenance Bonds Series 2018A		School Building Bonds Series 2020A		Facilities Maintenance & Refunding Bonds Series 2020B		Facilities Maintenance Bonds Series 2022A	
Dated	08/30/2017		12/19/2018		01/30/2020		11/05/2020		05/12/2022	
Amount	\$4,110,000		\$24,130,000		\$170,410,000		\$46,950,000		\$49,120,000	
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	295,000	78,381	1,410,000	698,856	6,885,000	3,785,406	1,870,000	802,144	2,025,000	2,005,688
2028	305,000	63,631	1,355,000	628,356	8,100,000	3,510,006	1,960,000	746,044	2,050,000	1,904,438
2029	325,000	48,381	1,140,000	560,606	8,195,000	3,186,006	3,130,000	687,244	2,765,000	1,801,938
2030	330,000	39,850	1,705,000	503,606	8,500,000	2,858,206	3,225,000	593,344	2,645,000	1,663,688
2031	340,000	30,775	1,905,000	435,406	8,840,000	2,518,206	2,025,000	496,594	2,960,000	1,531,438
2032	345,000	21,000	2,160,000	375,875	9,200,000	2,164,606	2,025,000	468,750	3,480,000	1,383,438
2033	355,000	10,650	2,340,000	302,975	9,410,000	1,980,606	2,085,000	438,375	3,720,000	1,244,238
2034			3,530,000	224,000	9,600,000	1,792,406	1,665,000	404,494	3,850,000	1,095,438
2035			2,870,000	100,450	9,775,000	1,588,406	2,505,000	375,356	4,395,000	970,313
2036					10,065,000	1,295,156	2,875,000	331,519	4,355,000	821,981
2037					10,310,000	1,056,113	3,350,000	277,613	4,960,000	675,000
2038					10,550,000	811,250	3,435,000	214,800	5,955,000	476,600
2039					10,815,000	547,500	3,625,000	146,100	5,960,000	238,400
2040					11,085,000	277,125	3,680,000	73,600		
2041										
2042										
	2,295,000	292,669	18,415,000	3,830,131	131,330,000	27,371,000	37,455,000	6,055,975	49,120,000	15,812,594

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**Independent School District No. 535 (Rochester Public Schools), Minnesota**  
**Schedule of Bonded Indebtedness continued**  
**General Obligation Debt Secured by Taxes**  
**(As of 06/25/2026)**

		Facilities Maintenance Bonds Series 2025A		Facilities Maintenance Bonds Series 2026A							
Dated	06/12/2025			06/25/2026							
Amount	\$32,505,000			\$33,800,000*							
Maturity	02/01			02/01							
Fiscal Year Ending	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending	
2027	965,000	1,545,375	0	891,692	18,175,000	10,526,479	28,701,479	311,145,000	5.52%	2027	
2028	1,185,000	1,497,125	455,000	1,486,153	20,220,000	10,416,515	30,636,515	290,925,000	11.66%	2028	
2029	1,340,000	1,437,875	480,000	1,463,403	18,955,000	9,625,540	28,580,540	271,970,000	17.41%	2029	
2030	1,440,000	1,370,875	490,000	1,439,403	19,950,000	8,865,359	28,815,359	252,020,000	23.47%	2030	
2031	1,445,000	1,298,875	635,000	1,414,903	19,815,000	8,077,909	27,892,909	232,205,000	29.49%	2031	
2032	1,515,000	1,226,625	680,000	1,383,153	21,115,000	7,328,134	28,443,134	211,090,000	35.90%	2032	
2033	1,600,000	1,150,875	720,000	1,349,153	21,990,000	6,732,246	28,722,246	189,100,000	42.58%	2033	
2034	1,700,000	1,070,875	755,000	1,313,153	22,915,000	6,103,665	29,018,665	166,185,000	49.54%	2034	
2035	1,805,000	985,875	800,000	1,275,403	24,020,000	5,444,340	29,464,340	142,165,000	56.83%	2035	
2036	1,910,000	895,625	830,000	1,235,403	21,960,000	4,670,396	26,630,396	120,205,000	63.50%	2036	
2037	2,005,000	800,125	875,000	1,193,903	22,425,000	4,032,815	26,457,815	97,780,000	70.31%	2037	
2038	2,405,000	699,875	920,000	1,150,153	23,265,000	3,352,678	26,617,678	74,515,000	77.37%	2038	
2039	2,540,000	579,625	955,000	1,113,353	23,895,000	2,624,978	26,519,978	50,620,000	84.63%	2039	
2040	3,415,000	452,625	2,810,000	1,075,153	20,990,000	1,878,503	22,868,503	29,630,000	91.00%	2040	
2041	3,545,000	307,488	11,430,000	962,753	14,975,000	1,270,240	16,245,240	14,655,000	95.55%	2041	
2042	3,690,000	156,825	10,965,000	476,978	14,655,000	633,803	15,288,803	0	100.00%	2042	
	32,505,000	15,476,563	33,800,000	19,224,104	329,320,000	91,583,598	420,903,598				

\* Preliminary, subject to change.

**Independent School District No. 535 (Rochester Public Schools), Minnesota**  
**Schedule of Bonded Indebtedness**  
**Non-General Obligation Debt Secured by Annual Appropriation**  
**(As of 06/25/2026)**

**Certificates of Participation**  
**Series 2017A**

<b>Dated</b>	08/30/2017							
<b>Amount</b>	\$7,945,000							
<b>Maturity</b>	02/01							
<b>Fiscal Year</b>						<b>Principal</b>	<b>Fiscal Year</b>	
<b>Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Principal</b>	<b>Total Interest</b>	<b>Total P &amp; I</b>	<b>Outstanding</b>	<b>% Paid</b>	<b>Ending</b>
<b>2027</b>	550,000	126,000	550,000	126,000	676,000	3,650,000	13.10%	<b>2027</b>
<b>2028</b>	565,000	109,500	565,000	109,500	674,500	3,085,000	26.55%	<b>2028</b>
<b>2029</b>	580,000	92,550	580,000	92,550	672,550	2,505,000	40.36%	<b>2029</b>
<b>2030</b>	600,000	75,150	600,000	75,150	675,150	1,905,000	54.64%	<b>2030</b>
<b>2031</b>	615,000	57,150	615,000	57,150	672,150	1,290,000	69.29%	<b>2031</b>
<b>2032</b>	635,000	38,700	635,000	38,700	673,700	655,000	84.40%	<b>2032</b>
<b>2033</b>	655,000	19,650	655,000	19,650	674,650	0	100.00%	<b>2033</b>
	4,200,000	518,700	4,200,000	518,700	4,718,700			

**OVERLAPPING DEBT<sup>1</sup>**

<b>Taxing District</b>	<b>2025/26 Taxable Net Tax Capacity</b>	<b>% In District</b>	<b>Total G.O. Debt<sup>2</sup></b>	<b>District's Proportionate Share</b>
Counties of:				
Olmsted	\$333,446,021	80.8163%	\$99,385,000	\$80,319,280
Wabasha	49,138,864	1.4667%	2,315,000	33,954
Cities of:				
Oronoco	3,790,527	71.9527%	11,808,379	8,496,448
Pine Island	3,906,887	0.1271%	5,933,000	7,541
Rochester	230,339,838	99.3686%	61,070,000	60,684,404
Towns of:				
Cascade	7,389,618	91.5252%	215,325	197,077
Oronoco	6,606,181	85.3050%	185,907	158,588
District's Share of Total Overlapping Debt				<u><u>\$149,897,291</u></u>

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<sup>1</sup> 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.

<sup>2</sup> 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 \$25,976,475,982	Debt/ Per Capita 138,398 <sup>1</sup>
Direct G.O. Debt Paid from Taxes and State Aids*	\$329,320,000	1.27%	\$2,379.51
District's Share of Total Overlapping Debt	<u>\$149,897,291</u>	<u>0.58%</u>	<u>\$1,083.09</u>
Total*	<u><u>\$479,217,291</u></u>	<u><u>1.84%</u></u>	<u><u>\$3,462.60</u></u>

\*Preliminary, subject to change.

## TAX LEVIES, COLLECTION AND RATES

### TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy <sup>2</sup>	Total Collected Following Year	Collected to Date	% Collected
2021/22	\$69,882,004	\$69,577,671	\$69,882,004	100.00%
2022/23	73,057,867	72,643,137	73,044,545	99.98%
2023/24	75,851,007	75,414,714	75,796,876	99.93%
2024/25	98,216,985	97,518,952	97,518,952	99.29%
2025/26	104,660,791	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.<sup>3</sup> 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.

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<sup>1</sup> Estimated 2024 population.

<sup>2</sup> This reflects the Final Levy Certification of the District after all adjustments have been made.

<sup>3</sup> Second half tax payments on agricultural property are due on November 15 of each year.

## TAX CAPACITY RATES<sup>1</sup>

	2021/22	2022/23	2023/24	2024/25	2025/26
I.S.D. No. 535 (Rochester Public Schools)	20.387%	18.104%	17.206%	18.237%	18.347%
Olmsted County	49.008%	44.671%	43.152%	44.422%	44.146%
Wabasha County	48.453%	42.922%	39.131%	39.600%	38.124%
City of Hammond	57.883%	46.112%	47.960%	45.748%	41.194%
City of Oronoco	37.574%	37.440%	41.593%	44.775%	43.954%
City of Pine Island	86.731%	81.321%	80.972%	81.762%	82.568%
City of Rochester	49.624%	46.406%	47.842%	51.230%	50.570%
Town of Cascade <sup>2</sup>	22.018%	19.878%	20.539%	21.900%	21.915%
Haverhill Ambulance	1.154%	0.856%	0.730%	N/A	N/A
NE 1/4	1.578%	1.586%	1.340%	1.574%	1.479%
Olmsted County HRA	1.688%	1.693%	1.676%	1.722%	1.711%
SE 1/4	3.079%	2.709%	2.443%	2.384%	2.389%
W 1/2	3.223%	2.965%	2.811%	3.031%	3.021%
Wabasha County HRA	0.329%	0.295%	0.312%	0.464%	N/A

### *Referendum Market Value Rates:*

I.S.D. No. 535 (Rochester Public Schools)	0.17744%	0.16756%	0.16674%	0.24915%	0.24125%
City of Rochester	0.01369%	0.01193%	0.01122%	0.01085%	0.01020%

**Source:** Tax Levies and Collections and Tax Capacity Rates have been furnished by Olmsted and Wabasha Counties.

## THE ISSUER

### EMPLOYEES

The District is governed by an elected school board and employs a staff of 2,583, including 1,060 non-licensed employees and 1,523 licensed employees (1,462 of whom are teachers). The District provides education for 17,441 students in grades kindergarten through twelve.

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

<sup>2</sup> Representative town rate.

## **PENSIONS; UNIONS**

### **Teachers' Retirement Association (TRA)**

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

### **Public Employees' Retirement Association (PERA)**

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

### **Recognized and Certified Bargaining Units**

<b>Bargaining Unit</b>	<b>Expiration Date of Current Contract</b>
Teachers	June 30, 2027
Education Support Professionals	June 30, 2026
Food Service	June 30, 2026
Clerical	June 30, 2026
Maintenance	June 30, 2026
Principals	June 30, 2027
Administrators	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. 74/75 (GASB 74/75). The District's most recent Audited Financial Statements shows a total OPEB liability of \$18,302,639 as of June 30, 2025. The District had been funding these obligations on a pay-as-you-go basis, but in June of 2015, the District created an irrevocable OPEB trust. As of June 30, 2025, the net position of the trust was \$22,378,223. Future OPEB costs will be paid partially from the trust and partially from operating funds.

**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:

<b>Year</b>	<b>Pre-K-5</b>	<b>Grades 6-8</b>	<b>Grades 9-12</b>	<b>Total</b>
2021/22	8,059	3,887	5,854	17,800
2022/23	8,045	3,777	5,907	17,729
2023/24	7,946	3,745	5,890	17,581
2024/25	7,864	3,688	5,771	17,323
2025/26	7,899	3,740	5,802	17,441

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

<b>Year</b>	<b>Pre-K-5</b>	<b>Grades 6-8</b>	<b>Grades 9-12</b>	<b>Total</b>
2026/27	7,654	3,688	5,759	17,101
2027/28	7,494	3,662	5,631	16,787
2028/29	7,372	3,572	5,600	16,544

## SCHOOL BUILDINGS

<b>School Building</b>	<b>Year Constructed</b>	<b>Years of Additions/ Remodelings</b>
Bamber Valley Elementary	1958	1961, 1966, 1989, 2003
Bishop Elementary	2022	--
Churchill Elementary	1967	--
Elton Hills Elementary	1959	1962
Folwell Elementary	1930	1950, 1960, 2009, 2014
Franklin Elementary	1969	1990, 2014
Gage Elementary	1964	1989
Gibbs Elementary	2009	2014
Hoover Elementary	1968	2018
Jefferson Elementary	1950	1957, 1960, 1993, 1998, 2020
Lincoln Elementary	1950	1965, 2009, 2014
Longfellow and Pinewood Elementary	2022	--
Overland Elementary	2021	--
Riverside Central Elementary	2001	--
Sunset Terrace Elementary	1960	1963, 1990
Washington Elementary	1951	1956, 1964, 2000, 2014
Dakota Middle School	2022	--
John Adams Middle School	1970	1980, 2005
Kellogg Middle School	1962	1980, 1989, 2005
Willow Creek Middle School	1979	1980, 2003
Century High School	1997	2000, 2001, 2004, 2005, 2012, 2013
John Marshall High School	1956	1958, 1974, 1980, 2001, 2006, 2007
Mayo High School	1966	1983, 2002, 2005, 2010, 2016, 2017, 2025-2028
Edison Administration Building	1915	1950, 1957, 1971
Educational Services Center	1967	--
Facilities Services Center	1970	1996, 2006
Former Mighty Oaks Early Learning Center	1953	1959, 1966, 1980, 2016
Friedell Building	1967	1997
Hawthorne Education Center	1917	1928, 1938, 1964, 2002
Mighty Oaks Early Learning School	1957	1960, 1962, 1964, 1988, 2014, 2025
Northrop Education Center	1915	1935, 2000, 2001
Rochester Alternative Learning Center	2006	--
Technology Support Service Center	2007	--

## 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 April 30, 2026)

<b>Fund</b>	<b>Total Cash and Investments</b>
General	\$91,594,531
Food Service	9,932,612
Community Service	5,547,363
Debt Service	5,042,878
Building/Construction	5,136,570
Trust & Agency	36,302,611
Internal Service	<u>2,890,977</u>
Total Funds on Hand	<u><u>\$156,447,542</u></u>

**BUDGET SUMMARY**

<b>Fund</b>	<b>June 30, 2025 Actual Fund Balance</b>	<b>2025-26 Projected Revenues and Transfers In</b>	<b>2025-26 Projected Expenditures and Transfers Out</b>	<b>2025-26 Revenues over (under) expenditures</b>	<b>June 30, 2026 Projected Fund Balance</b>
General	\$86,710,335	\$313,355,719	(\$315,959,970)	(\$2,604,251)	\$84,106,084
Food Service	9,120,433	12,387,056	(13,707,471)	(1,320,415)	7,800,018
Community Service	3,327,296	15,802,672	(16,463,447)	(660,775)	2,666,521
Building/Construction	38,837,457	900,000	(33,261,315)	(32,361,315)	6,476,142
Debt Service	4,714,698	28,025,288	(27,059,688)	965,600	5,680,298
Trust Fund	11,922,541	4,199,000	(3,221,000)	978,000	12,900,541
Internal Service Fund	(158,548)	41,782,000	(41,588,743)	193,257	34,709
OPEB Irrevocable Trust Fund	22,378,223	574,000	(670,800)	(96,800)	22,281,423
<b>Total All Funds</b>	<b><u>\$176,852,435</u></b>	<b><u>\$417,025,735</u></b>	<b><u>(\$451,932,434)</u></b>	<b><u>(\$34,906,699)</u></b>	<b><u>\$141,945,736</u></b>

**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.

	<b>FISCAL YEAR ENDING JUNE 30</b>				
<b>COMBINED STATEMENT</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
<b>Revenues</b>					
Local property taxes	\$42,061,639	\$45,489,539	\$41,229,343	\$44,741,491	\$48,598,341
Other local and county revenues	3,193,615	5,315,145	8,993,450	10,895,470	24,033,924
Revenue from state sources	183,003,573	186,897,697	191,714,495	210,945,867	217,679,695
Revenue from federal sources	15,117,486	16,165,285	20,053,116	20,334,880	11,515,329
Sales and other conversion of assets	548,935	0	0	12,000	0
<b>Total Revenues</b>	<b>\$243,925,248</b>	<b>\$253,867,666</b>	<b>\$261,990,404</b>	<b>\$286,929,708</b>	<b>\$301,827,289</b>
<b>Expenditures</b>					
Administration	\$8,798,115	\$8,554,294	\$9,814,762	\$10,296,684	\$10,610,571
District support services	5,981,203	7,048,533	9,410,829	12,105,713	12,318,191
Elementary and secondary regular instruction	100,562,701	104,628,634	103,720,869	111,216,687	115,853,133
Vocational education instruction	3,467,377	4,296,588	3,890,922	4,281,027	4,401,291
Special education instruction	49,741,097	52,629,043	55,683,004	56,810,844	60,790,744
Instructional support services	17,848,572	16,759,285	14,830,377	15,248,937	15,571,303
Pupil support services	26,792,676	30,076,621	33,364,634	37,466,309	40,569,522
Sites and buildings	20,101,331	18,911,873	20,743,680	21,033,992	21,730,368
Fiscal and other fixed cost programs	831,246	928,901	1,220,643	1,378,164	1,536,805
Community service	375,828	387,240	438,159	505,270	458,082
Capital outlay	3,903,624	3,846,366	4,694,100	2,661,306	5,274,010
Debt service	3,002,221	3,616,834	3,511,814	3,897,214	3,527,864
<b>Total Expenditures</b>	<b>\$241,405,991</b>	<b>\$251,684,212</b>	<b>\$261,323,793</b>	<b>\$276,902,147</b>	<b>\$292,641,884</b>
<b>Excess of revenues over (under) expenditures</b>	<b>\$2,519,257</b>	<b>\$2,183,454</b>	<b>\$666,611</b>	<b>\$10,027,561</b>	<b>\$9,185,405</b>
<b>Other Financing Sources (Uses)</b>					
Sale of capital assets	\$86,547	\$176,453	\$510,982	\$60,755	\$95,080
Insurance recovery proceeds	0	246,886	31,936	112,798	897
Debt proceeds	0	0	421,373	571,809	143,148
Bond issuance	0	6,060,000	0	0	6,735,000
Bond premium	0	311,048	0	0	231,552
Transfers in (out)	0	0	1,439,527	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>86,547</b>	<b>6,794,387</b>	<b>2,403,818</b>	<b>745,362</b>	<b>7,205,677</b>
<b>Net changes in Fund Balances</b>	<b>\$2,605,804</b>	<b>\$8,977,841</b>	<b>\$3,070,429</b>	<b>\$10,772,923</b>	<b>\$16,391,082</b>
General Fund Balance July 1	\$44,892,256	\$47,498,060	\$56,475,901	\$59,546,330	\$70,319,253
Prior Period Adjustment	0	0	0	0	0
<b>General Fund Balance June 30</b>	<b>\$47,498,060</b>	<b>\$56,475,901</b>	<b>\$59,546,330</b>	<b>\$70,319,253</b>	<b>\$86,710,335</b>
<b>DETAILS OF JUNE 30 FUND BALANCE</b>					
Nonspendable	\$1,144,701	\$922,804	\$570,608	\$507,617	\$2,029,366
Restricted	7,476,752	13,144,320	6,243,713	8,803,429	8,963,818
Committed	0	0	0	0	6,000,000
Assigned	8,642,168	9,537,750	10,674,938	12,835,729	19,487,447
Unassigned	30,234,439	32,871,027	42,057,071	48,172,478	50,229,704
<b>Total</b>	<b>\$47,498,060</b>	<b>\$56,475,901</b>	<b>\$59,546,330</b>	<b>\$70,319,253</b>	<b>\$86,710,335</b>

# GENERAL INFORMATION

## LOCATION

The District, with a 2020 U.S. Census population of 135,602 and a 2024 population estimate of 138,398, and comprising an area of 218 square miles, is located approximately 85 miles south of St. Paul, Minnesota. The City of Rochester, Minnesota is the County Seat of Olmsted County, Minnesota.

## LARGER EMPLOYERS<sup>1</sup>

Larger employers in the District include the following:

<b>Firm</b>	<b>Type of Business/Product</b>	<b>Estimated No. of Employees</b>
Mayo Medical Center	Medical hospital and clinics	26,308
I.S.D. No. 535 (Rochester Public Schools)	Elementary and secondary education	2,583
IBM	Computer services	2,500
Olmsted Medical Center	Medical hospital and clinic	1,526
Olmsted County	County government and services	1,398
City of Rochester	Municipal government and services	1,343
Walmart Supercenter	Retail store	870
Hy-Vee	Retail grocery store	750 <sup>2</sup>
Spectrum	Cable television and internet	672
Target	Retail	600 <sup>2</sup>
Rochester Community and Technical College	Community college	500

**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	115,716
2020 U.S. Census population	135,608
Percent of Change 2010 - 2020	17.19%
2024 State Demographer Estimate	138,398

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<sup>1</sup> 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.

<sup>2</sup> Total number of employees includes multiple locations within District limits.

**Income and Age Statistics**

	<b>The District</b>	<b>Olmsted County</b>	<b>State of Minnesota</b>	<b>United States</b>
2024 per capita income	\$55,778	\$54,393	\$48,237	\$44,673
2024 median household income	\$93,312	\$95,406	\$89,062	\$80,734
2024 median family income	\$121,921	\$123,426	\$113,993	\$99,999
2024 median gross rent	\$1,395	\$1,370	\$1,280	\$1,413
2024 median value owner occupied units	\$330,300	\$331,700	\$329,300	\$332,700
2024 median age	37.5 yrs.	37.8 yrs.	38.8 yrs.	38.9 yrs.

	<b>State of Minnesota</b>	<b>United States</b>
District % of 2024 per capita income	115.63%	124.86%
District % of 2024 median family income	106.95%	121.92%

**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.

<b>Year</b>	<b>Average Employment</b>		<b>Average Unemployment</b>	
	<b>Olmsted County</b>	<b>Olmsted County</b>	<b>Olmsted County</b>	<b>State of Minnesota</b>
2022	87,466		2.0%	2.5%
2023	88,393		2.2%	2.8%
2024	89,471		2.4%	3.1%
2025	90,137		3.1%	3.9%
2026, March	87,374		3.8%	4.9%

**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. 535  
Rochester, Minnesota**

**Basic Financial Statements**

**June 30, 2025**

**Independent School District No. 535  
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**Independent School District No. 535  
Board of Education and Administration  
June 30, 2025**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Cathy Nathan	Chair	December 31, 2026
Julie Workman	Vice Chair	December 31, 2026
Dr. Jean Marvin	Clerk	December 31, 2026
Justin Cook	Treasurer	December 31, 2026
Don Barlow	Director	December 31, 2028
Karen MacLaughlin	Director	December 31, 2028
Stephanie Whitehorn	Director	December 31, 2028
 <u>Administration</u>		
Dr. Kent Pekel	Superintendent	
John Carlson	Chief Administrative Officer	
Andy Krogstad	Director of Finance	
Andrew Hoffbeck	Manager of Accounting	

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## Independent Auditor's Report

To the School Board  
Independent School District No. 535  
Rochester, Minnesota

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 535, Rochester, Minnesota, as of and for the year ended June 30, 2025, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 535, as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund and the Food Service and Community Service Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 535 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Emphasis of Matter**

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

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

The management of Independent School District No. 535 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

### **Required Supplementary Information**

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

### **Supplementary Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV, Ltd.

St. Cloud, Minnesota  
October 27, 2025

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## Independent School District No. 535 Management Discussion and Analysis

This section of Independent School District No. 535's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2025. Please read it in conjunction with the District's financial statements, which immediately follows this section.

### FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2024-2025 include the following:

- Total General Fund revenues were \$301,827,289 and total General Fund expenditures were \$292,641,884 for the fiscal year ended June 30, 2025. Total revenues and expenditures for all governmental funds combined were \$359,656,873 and \$388,099,610, respectively.
- The total fund balance in the General Fund increased by \$16,391,082 to \$86,710,335. The Unassigned fund balance in the General Fund increased by \$2,057,226 to \$50,229,704. Total General Fund revenues were 0.4% more than the final budget, and total General Fund expenditures were 4.3% less than the final budget. The District spent less than budgeted in several areas, with the largest savings in supplies and materials, followed by purchased services and salaries.
- The total fund balance in the Food Services fund increased by \$440,014 to \$9,120,433, with revenue of \$12,977,525 and expenditures of \$12,537,511. The Food Service budget projected that expenditures would exceed revenues by \$462,845.
- The total fund balance in the Community Service fund decreased by \$733,414 to \$3,327,296, with revenue of \$18,170,542 and expenditures of \$18,903,956. The Community Service budget projected that expenditures would exceed revenue by \$221,889.
- The District spent \$36,487,238 on facility construction and deferred maintenance projects during the fiscal year. Of that amount, \$3,216,914 was spent on construction projects that were approved in the November 2019 referendum and \$33,270,324 was spent on major maintenance projects at district buildings.
- The long-term liability for compensated absences amounts to \$19,156,286 at June 30, 2025. This is an increase of \$2,519,065 from the prior year. The net long-term asset for other postemployment benefits (OPEB) is \$4,075,584 at June 30, 2025. In the prior year the net OPEB liability was \$131,977 which is an overall change of \$4,207,561 in 2024-2025. The District has an OPEB Trust to fund the postemployment obligation. At June 30, 2025, the fiduciary net position as a percentage of the total OPEB liability was 122.3%.
- The District has general obligation bonded debt principal outstanding in the amount of \$310,450,000 and certificates of participation payable principal outstanding in the amount of \$19,285,000 as of June 30, 2025. The net increase of \$19,045,000 is due to the issuance of Series 2025A General Obligation bonds totaling \$32,505,000 and Series 2025B Certificates of Participation totaling \$6,735,000 in 2024-2025 exceeding principal payments made in 2024-2025 totaling \$20,195,000.

## **Independent School District No. 535 Management Discussion and Analysis**

### **FINANCIAL HIGHLIGHTS (CONTINUED)**

- Net position of governmental activities increased by \$15,558,593 for the fiscal year. The total expense of governmental activities was \$348,172,006. Program revenues totaled \$135,386,554 and general revenues totaled \$228,344,045.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts - Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and single audit and other required reports. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- The proprietary funds statements offer short-term and long-term financial information about the activities the School District operates in a manner similar to businesses.
- The fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

### **DISTRICT-WIDE STATEMENTS**

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

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

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

## Independent School District No. 535 Management Discussion and Analysis

### DISTRICT-WIDE STATEMENTS (CONTINUED)

In the district-wide financial statements the District's activities are shown as Governmental activities:

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

### FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes.

The District has three kinds of funds:

- **Governmental funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- **Proprietary funds** - Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The District's sole Proprietary fund is an internal service fund.
- The District uses internal service funds to report activities that provide services for the District's other programs and activities. The District currently uses internal service funds for the Health and Dental Care self-insurance program and the Workers' Compensation self-insurance program.
- **Fiduciary funds** - The District is the trustee, or fiduciary, for assets that belong to others, such as the Reimbursement Account Trust, scholarships, and Irrevocable OPEB Trust. 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 district-wide financial statements because the District cannot use these assets to finance its operations.

**Independent School District No. 535  
Management Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net position**

The District's combined net position from Governmental activities was \$47,878,667 on June 30, 2025. (See Table A-1) This was an increase of \$15,558,593 in net position from June 30, 2024. Total assets increased by approximately \$42.6 million, primarily due to increases in capital assets of \$19.1 million and increases in cash and investments of \$10.6 million. Total liabilities decreased by approximately \$36.5 million, primarily due to a decrease in the net pension liability of \$43.9 million.

**Table A-1  
Net Position - Governmental Activities**

	Year Ended 2025	Year Ended 2024	Percentage Change
<b>Assets</b>			
Current and other assets	\$ 286,192,369	\$ 262,728,950	8.93%
Capital assets	427,750,060	408,601,054	4.69%
Total assets	<u>713,942,429</u>	<u>671,330,004</u>	6.35%
<b>Deferred Outflows of Resources</b>			
	<u>42,032,837</u>	<u>46,931,483</u>	-10.44%
Total assets and deferred outflows of resources	<u>\$ 755,975,266</u>	<u>\$ 718,261,487</u>	5.25%
<b>Liabilities</b>			
Other liabilities	\$ 46,947,718	\$ 60,994,925	-23.03%
Long-term liabilities	508,743,853	531,218,274	-4.23%
Total liabilities	<u>\$ 555,691,571</u>	<u>\$ 592,213,199</u>	-6.17%
<b>Deferred Inflows of Resources</b>			
	<u>\$ 152,405,028</u>	<u>\$ 93,728,214</u>	62.60%
<b>Net Position</b>			
Net investment in capital assets	\$ 124,227,272	\$ 120,344,432	3.23%
Restricted	22,470,654	25,053,475	-10.31%
Unrestricted	<u>(98,819,259)</u>	<u>(113,077,833)</u>	12.61%
Total net position	<u>\$ 47,878,667</u>	<u>\$ 32,320,074</u>	-48.14%

**Changes in net position**

The District's total revenues were \$363,730,599 for the year ended June 30, 2025. Property taxes and state formula aid accounted for 61% of total revenue for the year (See Figure A-1). 39% of total revenue came from program revenues and investment earnings.

**Independent School District No. 535  
Management Discussion and Analysis**

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

**Changes in net position (Continued)**

The total cost of all programs and services was \$348,172,006. The District's expenses are predominantly related to educating and caring for students, approximately 78% (See Figure A-2). The purely administrative activities of the District accounted for just 3% of total costs. Total revenues were greater than expenditures, increasing net position by \$15,558,593.

**Table A-2  
Change in Net Position**

	Year Ended 2025	Year Ended 2024	Percentage Change
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 14,827,160	\$ 11,383,133	30.26%
Operating grants and contributions	118,871,443	113,927,363	4.34%
Capital grants and contributions	1,687,951	2,097,095	-19.51%
General revenues			
Property taxes	76,380,540	74,940,560	1.92%
General grants and aids	145,789,399	139,154,376	4.77%
Investment earnings	6,174,106	7,270,420	-15.08%
Total revenues	<u>363,730,599</u>	<u>348,772,947</u>	4.29%
<b>Expenses</b>			
Administration	\$10,868,396	\$9,913,375	9.63%
District support services	13,607,241	12,925,952	5.27%
Elementary and secondary regular instruction	136,420,429	122,072,457	11.75%
Vocational education instruction	4,532,648	4,062,767	11.57%
Special education instruction	61,449,461	54,095,990	13.59%
Instructional support services	15,410,405	12,619,411	22.12%
Pupil support services	41,186,073	37,182,331	10.77%
Sites and buildings	23,353,475	22,769,652	2.56%
Fiscal and other fixed cost programs	1,460,085	1,308,249	11.61%
Food service	12,727,532	11,824,936	7.63%
Community education and services	19,007,460	16,668,111	14.03%
Interest and fiscal charges on long-term debt	8,148,801	8,818,091	-7.59%
Total expenses	<u>348,172,006</u>	<u>314,261,322</u>	10.79%
Increase (decrease) in net position	15,558,593	34,511,625	-54.92%
<b>Net Position</b>			
Net position - beginning, as previously stated	32,320,074	(13,052,143)	-347.62%
Change in accounting principle	-	10,860,592	
Beginning of year	<u>32,320,074</u>	<u>(2,191,551)</u>	1574.76%
End of year	<u>\$ 47,878,667</u>	<u>\$ 32,320,074</u>	-48.14%

Independent School District No. 535  
 Management Discussion and Analysis

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-1  
 Source of Revenues for Fiscal Year 2025

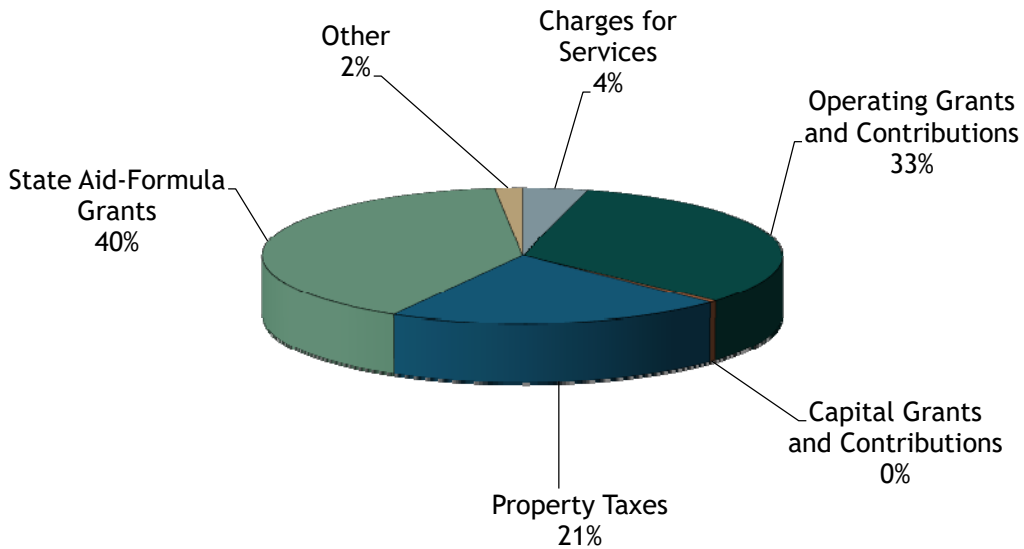
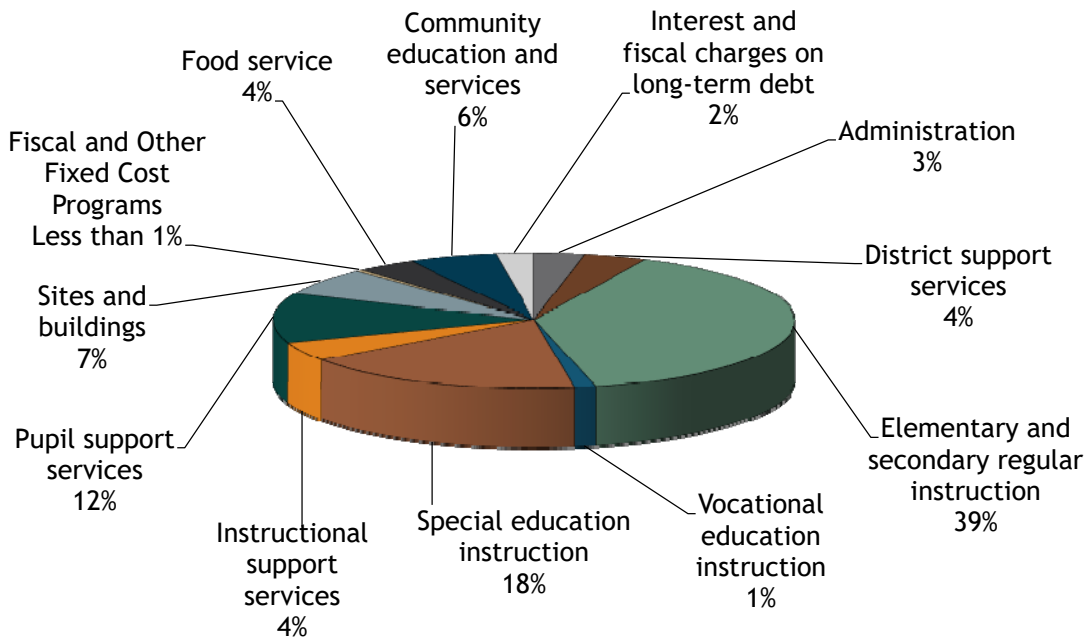


Figure A-2  
 Expenses for Fiscal Year 2025



**Independent School District No. 535  
Management Discussion and Analysis**

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

- The cost of all governmental activities was \$348,172,006 which is an increase of \$33,910,684 or 10.8% from the previous year. The increase is primarily due to higher expenditures for elementary and secondary regular instruction and special education instruction compared to the prior fiscal year.
- Some of the cost was paid by the users of the District's programs (\$14,827,160).
- The federal and state governments subsidized certain programs with grants and contributions (\$120,559,394).
- Most of the District's costs (\$228,344,045), however, were paid for by District taxpayers and the taxpayers of the State of Minnesota.
- The net expense of governmental activities in excess of program revenue was paid for with \$76,380,540 in property taxes and \$145,789,399 of state aid based on the statewide education aid formula. Investment earnings were \$6,174,106 for the year ended June 30, 2025.

Table A-3  
Program Expenses and Net Cost of Services

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2025	2024		2025	2024	
Administrative	\$ 10,868,396	\$ 9,913,375	9.63%	\$ 10,845,876	\$ 9,899,485	9.56%
District support services	13,607,241	12,925,952	5.27%	10,898,345	10,175,308	7.11%
Elementary and secondary regular instruction	136,420,429	122,072,457	11.75%	98,827,540	87,032,017	13.55%
Vocational education instruction	4,532,648	4,062,767	11.57%	3,568,167	3,100,209	15.09%
Special education instruction	61,449,461	54,095,990	13.59%	2,605,936	(825,322)	-415.75%
Instructional support services	15,410,405	12,619,411	22.12%	11,372,903	7,784,884	46.09%
Pupil support services	41,186,073	37,182,331	10.77%	38,059,657	34,671,895	9.77%
Sites and buildings	23,353,475	22,769,652	2.56%	22,150,536	22,197,883	-0.21%
Fiscal and other fixed cost programs	1,460,085	1,308,249	11.61%	1,444,785	1,302,499	10.92%
Food service	12,727,532	11,824,936	7.63%	117,999	(1,166,535)	-110.12%
Community education and services	19,007,460	16,668,111	14.03%	4,744,907	3,863,317	22.82%
Interest and fiscal charges on long-term debt	8,148,801	8,818,091	-7.59%	8,148,801	8,818,091	-7.59%
<b>Total</b>	<b>\$ 348,172,006</b>	<b>\$ 314,261,322</b>	<b>10.79%</b>	<b>\$ 212,785,452</b>	<b>\$ 186,853,731</b>	<b>13.88%</b>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year its governmental funds reported a combined fund balance of \$142,710,218, which is an increase of \$13,242,481 from the prior year ending fund balance. Revenues for the District's governmental funds were \$359,656,873, total expenditures were \$388,099,610, and other sources and uses provided \$41,685,218.

The Capital Projects Fund balance decreased by \$1,808,317 in the current fiscal year. The fund balance of the General Fund increased by \$16,391,082. The operations of the other governmental funds: Food Service, Community Service and Debt Service resulted in a decrease in fund balance of \$1,340,284.

**Independent School District No. 535  
Management Discussion and Analysis**

**GENERAL FUND**

The General Fund includes the primary operations of the District in providing educational services to students from early childhood through grade 12 including pupil transportation activities and operating capital expenditures.

The following table shows that the number of students in the District has decreased by 242 since 2021.

**Table A-4  
Five-Year Enrollment Trend  
Average Daily Membership (ADM)**

Grade	2021	2022	2023	2024	2025
ECSE	223	223	260	268	270
School Readiness	28	41	37	33	30
Kdgt.	1,267	1,250	1,207	1,174	1,130
1-3	3,738	3,741	3,764	3,690	3,625
4-6	3,779	3,803	3,743	3,691	3,712
7-12	8,101	8,238	8,179	8,141	8,126
Total K-12	17,136	17,294	17,191	16,997	16,894
ADM Change	(566)	158	(104)	(193)	(104)
Percent Change	-3.2%	0.9%	-0.6%	-1.1%	-0.6%

District enrollment is expected to decrease slightly in 2025-2026.

The following schedule presents a summary of General Fund Revenues.

**Table A-5  
General Fund Revenues**

	Year Ended		Change	
	June 30, 2025	June 30, 2024	Increase (Decrease)	Percent Change
Local property taxes	\$ 48,598,341	\$ 44,741,491	\$ 3,856,850	8.6%
Revenue from state sources	217,679,695	210,945,867	6,733,828	3.2%
Revenue from federal sources	11,515,329	20,334,880	(8,819,551)	-43.4%
Other	24,033,924	10,907,470	13,126,454	120.3%
<b>Total</b>	<b>\$ 301,827,289</b>	<b>\$ 286,929,708</b>	<b>\$ 14,897,581</b>	<b>5.2%</b>

Total General Fund revenue of \$301,827,289 increased by \$14,897,581, or 5.2%, compared to the previous year. Basic general education revenue is determined by the state per student funding formula and consists of state aid revenue. Other state-authorized revenue including excess levy referendum and operating capital involve an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change of revenue.

**Independent School District No. 535  
Management Discussion and Analysis**

**GENERAL FUND (CONTINUED)**

Other revenues increased by \$13,126,454. In the current year, donation revenue increased by \$10,071,548. This is primarily due to the District receiving a \$10,000,000 donation from the Mayo Clinic. The District also had increased medical assistance revenue of \$2,105,922 compared to the prior year.

The following schedule presents a summary of General Fund expenditures.

**Table A-6  
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2025	June 30, 2024	Increase (Decrease)	Percent Change
Salaries	\$ 165,802,971	\$ 161,581,866	\$ 4,221,105	2.6%
Employee benefits	64,300,580	57,810,771	6,489,809	11.2%
Purchased services	43,823,189	38,850,002	4,973,187	12.8%
Supplies and materials	9,474,033	11,154,895	(1,680,862)	-15.1%
Capital expenditures	5,274,010	2,661,306	2,612,704	98.2%
Debt service expenditures	3,476,957	3,897,214	(420,257)	-10.8%
Other expenditures	490,144	946,093	(455,949)	-48.2%
<b>Total</b>	<b>\$ 292,641,884</b>	<b>\$ 276,902,147</b>	<b>\$ 15,739,737</b>	<b>5.7%</b>

The total General Fund expenditures of \$292,641,884 was an increase of \$15,739,737, or 5.7%, over the prior year. Salaries increased by \$4,221,105, which is an increase of 2.6% over the prior year. The increase in salaries is attributed to step increases and salary schedule adjustments as established in employee contracts.

Employee benefits expenditures increased by \$6,489,809, or 11.2%, over the prior year. This is primarily attributed to increased expenditures for employer health insurance (\$4,446,458) and employer health savings and health reimbursement account contributions (\$1,191,479) as compared to the prior year.

Purchased services expenditures increased \$4,973,187, or 12.8%, from the prior year. This increase is primarily attributed to increased expenditures for pupil transportation (\$3,230,269), repairs and maintenance (\$650,521) and post-secondary tuition (\$535,935) as compared to the prior year.

The remaining categories of supplies and materials, capital expenditures, debt service and other expenditures net to an overall cost increase of \$55,636 from 2024 to 2025.

In 2024-2025, General Fund revenues exceeded expenditures by \$9,185,405, which was \$14,255,825 better than budget. Revenue received was \$1,244,459 greater than budgeted, and expenditures were \$13,011,366 less than budgeted. The unassigned fund balance increased from \$48,172,478 at June 30, 2024, to \$50,229,704 at June 30, 2025, an increase of \$2,057,226. Expenditures were less than budgeted in several areas, including supplies and materials, followed by purchased services and salaries. Additional discussion of budget variances is provided in the next section - General Fund Budgetary Highlights.

**Independent School District No. 535  
Management Discussion and Analysis**

**GENERAL FUND (CONTINUED)**

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget. The budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, reinstating prior year designated carryover reserves, and changes in enrollment estimates.
- Increases in appropriations for significant unbudgeted costs or revenues.

The District's final budget for the General Fund anticipated expenditures to exceed revenues by \$5,070,420 while the actual results for the year show that revenues exceeded expenditures by \$9,185,405.

In our analysis of significant variances between original and final budget amounts and between final budget amounts and actual results in the General Fund, there are no variances in revenues that will have a significant effect on future services or liquidity. The main reasons for the difference between the original budget and the final budget are described in the following paragraph. The District historically has used the October 1 student enrollment as the basis for the final budget.

On the expenditure side of the budget, the major reasons for the variance between original and final budget amounts (approximately \$9.1 million) include additional expenditure budgets resulting from additional federal grant budgets added after the original budget was approved (approximately \$3.8 million), carryover of unspent funds from the previous fiscal year (approximately \$2.6 million), additional budgets added for additional funding received in 2024-2025 (approximately \$1.8 million) and additional budgets added for student use technology devices funded through technology certificates of participation (\$1.3 million).

Taking a look at the \$13.0 million difference between the final expenditure budget and actual expenditures, the unspent supplies and materials budgets were approximately \$4.5 million. There were also unspent purchased services budgets of \$2.8 million, unspent salaries budgets of \$2.8 million and unspent employee benefits budgets of \$1.2 million. Approximately \$2.8 million of unspent expenditure budgets will carryover and be added to expenditure budgets in the 2025-2026 fiscal year. Some of the variances will have a positive effect on future budgets by allowing for ongoing budget reductions in certain areas.

**FOOD SERVICE FUND**

The Food Service Fund accounts for the activities related to providing nutrition services to the K-12 academic program. The fund operates on the principle of revenues exceeding expenditures on day-to-day operations so that the excess can be used to systematically replace and upgrade kitchen equipment around the District. By operating in this manner, the Student Nutrition Services program is self-contained and does not pull resources away from direct K-12 instruction. The District served 1,834,280 lunches and 891,842 breakfasts to students during the 2024-2025 school year.

**Independent School District No. 535  
Management Discussion and Analysis**

**FOOD SERVICE FUND (CONTINUED)**

The fund balance increased by \$440,014 in 2024-2025 as compared to the budgeted decrease of \$462,845. Food Service Fund revenue for 2024-2025 totaled \$12,977,525, which is a decrease of \$300,156, or 2.3%, from 2023-2024. This is primarily attributed to the discontinuance of Supply Chain Assistance (SCA) federal aid. In 2023-2024 SCA federal aid totaled \$523,119 as compared to \$0 in 2024-2025. Food Service Fund expenditures for 2024-2025 totaled \$12,537,511, an increase of \$1,027,508, or 8.9%, from 2023-2024.

**COMMUNITY SERVICE FUND**

The Community Service Fund accounts for the activities related to providing education services for Pre-Kindergarten and Post-Grade 12 students. The fund operates on a principle of breaking even on a year-to-year basis so that it does not pull resources away from K-12 instruction.

The fund balance decreased by \$733,414 in 2024-2025. Community Service Fund revenues for 2024-2025 totaled \$18,170,542. This was an increase of \$1,313,900, or 7.8%, from 2023-2024. Community Service Fund expenditures for 2024-2025 totaled \$18,903,956. This was an increase of \$2,164,207, or 12.9%, from 2023-2024, which resulted from higher participation in programs offered in the current year.

The entire fund balance is restricted to be used for specific purposes based on state requirements.

**CAPITAL PROJECTS FUND**

The Capital Projects Fund accounts for the costs of school construction, addition, and renovation projects. Bond proceeds are deposited in the Capital Projects Fund and are then drawn down as the payments are made for work completed on the various building projects. The proceeds of bonds can only be used for the purpose for which the bonds were issued.

In 2024-2025 the District issued Series 2025A General Obligation bonds to fund the construction of building additions and capital improvements totaling \$33,496,511. The District had other local revenues totaling \$1,162,910 and revenues resulting from other conversions of assets totaling \$19,500.

The District expended \$36,487,238 on capital projects at several sites as planned. The fund balance decreased by \$1,808,317 in 2024-2025 to \$38,837,457 at June 30, 2025. Several projects are in process at the end of the fiscal year. At such time that the District has completed all construction projects in process, the fund balance of this fund should end up at \$0 as long as no further construction or facility renovation is approved.

**DEBT SERVICE FUND**

The Debt Service Fund exists to service the principal and interest payments on long-term debt issued by the District to construct school facilities or acquire school equipment. Annual levies will provide revenue at a rate of 105% of pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payments can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

**Independent School District No. 535  
Management Discussion and Analysis**

**DEBT SERVICE FUND (CONTINUED)**

Debt service revenue was \$25,499,107 for 2024-2025, 94% of which came from property tax revenue. Debt service expenditures were \$27,529,021. The District made principal payments in the amount of \$18,195,000 and interest payments of \$9,317,271. The Debt Service Fund has a fund balance of \$4,714,697 as of June 30, 2025, which is restricted to be used for future debt payments.

The Minnesota Department of Education monitors fund balances in the Debt Service Fund and limits the amount of funds that can be carried forward. If the fund balance gets too high, future levy authority will be reduced in order to reduce the debt service fund balance to a reasonable level. Fund balance and collection of tax levies will provide adequate cash flow for timely payment of principal and interest.

The District currently has an underlying bond rating of AA from Standard & Poor's.

**INTERNAL SERVICE FUND**

This fund accounts for the District's self-funded employee's health and dental benefits and workers' compensation program. The costs of these programs are charged back to the other funds of the District based on established rates. The programs have total net position of \$(158,548) as of June 30, 2025, as compared to \$2,393,664 on June 30, 2024. This is a decrease of \$2,552,212. Operating expenses exceeded operating revenues by \$2,909,045. The funds also had investment income of \$199,840.

The operating loss of the health and dental care trust was \$3,171,965. This is primarily due to the level of health insurance claims for the fiscal year. Claim expense was \$42,106,862 in 2024-2025, while charges for services were \$40,058,065. There were also administrative expenses of \$1,106,987 in 2024-2025. Net position related to the health and dental care trust can only be used to provide benefits and is not available to the District for other purposes. The Insurance Trust Committee, comprised of community experts and District employees, monitors the funding requirements on an ongoing basis. The contribution rates for health insurance will be increased and plan changes will be implemented to re-establish a positive fund balance for the health and dental trust.

**REIMBURSEMENT ACCOUNT TRUST**

This fund accounts for the District's Reimbursement Account Trust. The Trust received contributions in the amount of \$3,712,475, experienced earnings on investments held of \$232,787, incurred benefit expenditures of \$3,124,479, and paid administrative fees of \$61,119, ending the year with a net position of \$11,922,541.

**IRREVOCABLE OPEB TRUST**

This fund accounts for the District's irrevocable OPEB Trust. The Trust experienced earnings on investments held of \$2,086,072 and paid administrative fees of \$6,780, ending the year with a net position of \$22,378,222.

**Independent School District No. 535  
Management Discussion and Analysis**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2025, the District had invested \$427,750,060 in a broad range of capital assets including: school buildings, land, and other equipment for various instructional programs (see Table A-7). Accumulated depreciation/amortization as of June 30, 2025, was \$288,487,821, with current year depreciation/amortization expense for Governmental Activities totaling \$23,657,626. More detailed information about capital assets can be found in Note 3 to the basic financial statements.

**Table A-7  
Capital Assets**

	Year Ended 2025	Year Ended 2024	Percent Change
Land	\$ 10,130,178	\$ 10,130,178	0.0%
Construction in progress	38,487,329	55,409,906	-30.5%
Land improvements	35,851,172	31,917,389	12.3%
Buildings and improvements	580,684,173	531,156,238	9.3%
Equipment	44,869,612	40,483,985	10.8%
Leased equipment	1,527,382	1,527,382	0.0%
Leased buildings	590,262	711,289	-17.0%
Subscription assets	4,097,773	3,025,552	N/A
Less accumulated depreciation/amortization	(288,487,821)	(265,760,865)	8.6%
 Total capital assets	 <u>\$ 427,750,060</u>	 <u>\$ 408,601,054</u>	 <u>4.7%</u>

**Long-Term Liabilities**

For the fiscal year ended June 30, 2025, the District had \$508,743,853 in long-term liabilities outstanding, including \$310,450,000 in General Obligation Bonds, \$140,537,421 for net pension liability, \$19,285,000 in Certificates of Participation, and \$19,156,286 for compensated absences. The decrease in total long-term liabilities was \$22,474,421 or 4.2% from last year (see Table A-8). More detailed information about the District's long-term liabilities is presented in Note 4 of the financial statements.

**Independent School District No. 535  
Management Discussion and Analysis**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Table A-8  
Long-Term Liabilities**

	Year Ended 2025	Year Ended 2024	Percent Change
General obligation bonds	\$ 310,450,000	\$ 294,020,000	5.6%
Net bond premium and discount	18,138,424	17,391,384	4.3%
Certificates of participation payable	19,285,000	16,670,000	15.7%
Notes from direct borrowing	141,041	108,107	30.5%
Lease liability	521,547	871,962	-40.2%
Subscription liability	514,134	984,545	N/A
Net pension liability	140,537,421	184,403,078	-23.8%
Net OPEB liability	-	131,977	-100.0%
Compensated absences payable	19,156,286	16,637,221	15.1%
<b>Total long-term liabilities</b>	<b>\$ 508,743,853</b>	<b>\$ 531,218,274</b>	<b>-4.2%</b>
Long-term liabilities			
Due within one year	\$ 21,580,131	\$ 22,087,460	
Due in more than one year	487,163,722	509,130,814	
<b>Total</b>	<b>\$ 508,743,853</b>	<b>\$ 531,218,274</b>	

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office, Independent School District No. 535, 615 7<sup>th</sup> Street SW, Rochester, Minnesota 55902.

## **BASIC FINANCIAL STATEMENTS**

Independent School District No. 535  
Statement of Net Position  
June 30, 2025

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 196,618,128
Cash with fiscal agent	3,781
Current property taxes receivable	49,351,036
Delinquent property taxes receivable	442,959
Accounts receivable	676,720
Interest receivable	393,434
Due from Department of Education	26,089,506
Due from other Minnesota school districts	387,492
Due from Federal Government through Department of Education	5,029,416
Due from Federal Government	121,513
Due from other governmental units	816,216
Inventory	120,647
Prepaid items	2,065,937
Capital assets not being depreciated	
Land	10,130,178
Construction in progress	38,487,329
Capital assets net of depreciation/amortization	
Land improvements	25,184,118
Buildings	330,578,112
Equipment	21,453,784
Lease equipment	411,198
Lease buildings	89,704
Subscription assets	1,415,637
Net OPEB asset	4,075,584
Total assets	<u>713,942,429</u>
<b>Deferred Outflows of Resources</b>	
Deferred amount on refunding	233,941
Deferred outflows related to OPEB	2,074,841
Deferred outflows related to pensions	39,724,055
Total deferred outflows of resources	<u>42,032,837</u>
 Total assets and deferred outflows of resources	 <u><u>\$ 755,975,266</u></u>

Independent School District No. 535  
Statement of Net Position  
June 30, 2025

	Governmental Activities
<b>Liabilities</b>	
Accounts and contracts payable	\$ 13,806,474
Salaries and benefits payable	22,865,853
Interest payable	3,819,795
Due to other Minnesota school districts	1,607,787
Due to other governmental units	722
Unearned revenue	888,113
Claims payable	3,958,974
Net bond principal payable	
Due within one year	14,930,000
Due in more than one year	313,658,424
Certificates of participation payable	
Due within one year	4,320,000
Due in more than one year	14,965,000
Notes payable	
Due within one year	4,425
Due after one year	136,616
Lease liability	
Due within one year	357,477
Due after one year	164,070
Subscription liability	
Payable within one year	385,030
Payable after one year	129,104
Compensated absences payable	
Due within one year	1,583,199
Due in more than one year	17,573,087
Net pension liability	140,537,421
Total liabilities	555,691,571
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	95,994,233
Deferred amount on refunding	374,254
Deferred inflows related to OPEB	8,664,677
Deferred inflows related to pensions	47,371,864
Total deferred inflows of resources	152,405,028
<b>Net Position</b>	
Net investment in capital assets	124,227,272
Restricted for	
General purposes	8,963,818
Debt service	1,036,649
Food service	9,120,433
Community service	3,349,754
Unrestricted	(98,819,259)
Total net position	47,878,667
Total liabilities, deferred inflows of resources, and net position	\$ 755,975,266

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Independent School District No. 535  
Statement of Activities  
Year Ended June 30, 2025

Functions/Programs	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Administration	\$ 10,868,396	\$ 22,520	\$ -	\$ -	\$ (10,845,876)
District support services	13,607,241	-	1,459,813	1,249,083	(10,898,345)
Elementary and secondary regular instruction	136,420,429	1,952,695	35,623,314	16,880	(98,827,540)
Vocational education instruction	4,532,648	-	964,481	-	(3,568,167)
Special education instruction	61,449,461	4,891,895	53,951,630	-	(2,605,936)
Instructional support services	15,410,405	3,840	3,999,903	33,759	(11,372,903)
Pupil support services	41,186,073	190,772	2,918,764	16,880	(38,059,657)
Sites and buildings	23,353,475	38,027	793,563	371,349	(22,150,536)
Fiscal and other fixed cost programs	1,460,085	-	15,300	-	(1,444,785)
Food service	12,727,532	428,031	12,181,502	-	(117,999)
Community education and services	19,007,460	7,299,380	6,963,173	-	(4,744,907)
Interest and fiscal charges on long-term debt	8,148,801	-	-	-	(8,148,801)
<b>Total governmental activities</b>	<b>\$ 348,172,006</b>	<b>\$ 14,827,160</b>	<b>\$ 118,871,443</b>	<b>\$ 1,687,951</b>	<b>(212,785,452)</b>
General revenues					
Taxes					
Property taxes, levied for general purposes					
48,613,422					
Property taxes, levied for debt service					
23,915,957					
Property taxes, levied for community service					
3,851,161					
General grants and aids					
145,789,399					
Investment income					
6,174,106					
Total general revenues					
<u>228,344,045</u>					
Change in net position					
15,558,593					
Net position - beginning					
<u>32,320,074</u>					
Net position - ending					
<u>\$ 47,878,667</u>					

See notes to basic financial statements.

Independent School District No. 535  
Balance Sheet - Governmental Funds  
June 30, 2024

	General	Food Service	Community Service	Capital Projects
<b>Assets</b>				
Cash and investments	\$ 112,314,889	\$ 9,771,584	\$ 6,499,258	\$ 45,693,432
Cash with fiscal agent	3,781	-	-	-
Current property taxes receivable	33,722,824	-	2,226,022	-
Delinquent property taxes receivable	278,754	-	22,458	-
Accounts receivable	454,952	42	121,086	-
Interest receivable	362,973	12,000	11,538	-
Due from Department of Education	25,637,040	87,701	260,933	-
Due from Federal Government through Department of Education	4,210,945	229,462	589,009	-
Due from Federal Government	121,513	-	-	-
Due from other Minnesota school districts	387,492	-	-	-
Due from other governmental units	816,216	-	-	-
Inventory	4,073	116,574	-	-
Prepaid items	2,025,293	5,359	35,285	-
	<u>\$ 180,340,745</u>	<u>\$ 10,222,722</u>	<u>\$ 9,765,589</u>	<u>\$ 45,693,432</u>
<b>Liabilities</b>				
Accounts payable	\$ 3,369,650	\$ 66,440	\$ 269,475	\$ 187,887
Contracts payable	2,278,641	-	-	6,668,088
Salaries and benefits payable	20,780,907	664,569	1,420,377	-
Due to other Minnesota school districts	1,607,787	-	-	-
Due to other governmental units	722	-	-	-
Unearned revenue	253,510	371,280	263,323	-
Total liabilities	<u>28,291,217</u>	<u>1,102,289</u>	<u>1,953,175</u>	<u>6,855,975</u>
<b>Deferred inflows of resources</b>				
Property tax levied for subsequent year's expenditures	65,060,439	-	4,462,660	-
Unavailable revenue - delinquent property taxes	278,754	-	22,458	-
Total deferred inflows of resources	<u>65,339,193</u>	<u>-</u>	<u>4,485,118</u>	<u>-</u>
<b>Fund Balances</b>				
Nonspendable for				
Inventory	4,073	116,574	-	-
Prepaid items	2,025,293	5,359	35,285	-
Restricted for				
Student activities	447,230	-	-	-
Scholarships	46,351	-	-	-
Staff development	257,515	-	-	-
Literacy incentive aid	1,159,877	-	-	-
Operating capital	943,191	-	-	-
Community education	-	-	2,791,535	-
Early childhood and family education	-	-	213,833	-
Area learning center	1,165,593	-	-	-
School readiness	-	-	75,346	-
Adult basic education	-	-	211,297	-
Safe schools levy	145,814	-	-	-
Student support personnel aid	191,040	-	-	-
Basic skills	59,764	-	-	-
Literacy aid	383,100	-	-	-
Teacher comp READ act	91,072	-	-	-
Long-term facilities maintenance	91,492	-	-	36,895,010
Medical assistance	3,981,779	-	-	-
Debt service	-	-	-	-
Food service	-	8,998,500	-	-
Capital projects	-	-	-	1,942,447
Committed for				
Future facilities and technology	6,000,000	-	-	-
Assigned	19,487,447	-	-	-
Unassigned	50,229,704	-	-	-
Total fund balances	<u>86,710,335</u>	<u>9,120,433</u>	<u>3,327,296</u>	<u>38,837,457</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 180,340,745</u>	<u>\$ 10,222,722</u>	<u>\$ 9,765,589</u>	<u>\$ 45,693,432</u>

See notes to basic financial statements.

<u>Debt Service</u>	Total Governmental Funds
\$ 17,681,751	\$ 191,960,914
-	3,781
13,402,190	49,351,036
141,747	442,959
-	576,080
2,308	388,819
103,832	26,089,506
-	5,029,416
-	121,513
-	387,492
-	816,216
-	120,647
-	2,065,937
<u>\$ 31,331,828</u>	<u>\$ 277,354,316</u>
\$ 4,250	\$ 3,897,702
-	8,946,729
-	22,865,853
-	1,607,787
-	722
-	888,113
<u>4,250</u>	<u>38,206,906</u>
26,471,134	95,994,233
141,747	442,959
<u>26,612,881</u>	<u>96,437,192</u>
-	120,647
-	2,065,937
-	447,230
-	46,351
-	257,515
-	1,159,877
-	943,191
-	2,791,535
-	213,833
-	1,165,593
-	75,346
-	211,297
-	145,814
-	191,040
-	59,764
-	383,100
-	91,072
-	36,986,502
-	3,981,779
4,714,697	4,714,697
-	8,998,500
-	1,942,447
-	6,000,000
-	19,487,447
-	50,229,704
<u>4,714,697</u>	<u>142,710,218</u>
<u>\$ 31,331,828</u>	<u>\$ 277,354,316</u>

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**Independent School District No. 535  
Reconciliation of the Balance Sheet to  
the Statement of Net Position - Governmental Funds  
June 30, 2025**

Total fund balances - governmental funds	\$ 142,710,218
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	716,237,881
Less accumulated depreciation/amortization	(288,487,821)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(310,450,000)
Certificates of participation payable	(19,285,000)
Bond premiums	(18,138,424)
Deferred amount on refunding	(140,313)
Notes payable	(141,041)
Compensated absences payable	(19,156,286)
Lease liability	(521,547)
Subscription liability	(514,134)
Net OPEB asset	4,075,584
Net pension liability	(140,537,421)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows related to pensions	39,724,055
Deferred inflows related to pensions	(47,371,864)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to OPEB that are not recognized in the governmental funds.	
Deferred outflows related to OPEB	2,074,841
Deferred inflows related to OPEB	(8,664,677)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
	442,959
Internal service funds are used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position and interfund activity is removed.	
	(158,548)
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	
	<u>(3,819,795)</u>
Total net position - governmental activities	<u>\$ 47,878,667</u>

**Independent School District No. 535**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2025**

	General	Food Service	Community Service	Capital Projects
<b>Revenues</b>				
Local property taxes	\$ 48,598,341	\$ -	\$ 3,853,724	\$ -
Other local and county revenues	24,033,924	367,992	7,932,659	1,162,910
Revenue from state sources	217,679,695	5,478,784	4,217,388	-
Revenue from federal sources	11,515,329	6,702,718	2,166,771	-
Sales and other conversion of assets	-	428,031	-	19,500
Total revenues	<u>301,827,289</u>	<u>12,977,525</u>	<u>18,170,542</u>	<u>1,182,410</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	10,610,571	-	-	-
District support services	12,318,191	-	-	-
Elementary and secondary regular instruction	115,853,133	-	-	-
Vocational education instruction	4,401,291	-	-	-
Special education instruction	60,790,744	-	-	-
Instructional support services	15,571,303	-	-	-
Pupil support services	40,569,522	-	346,961	-
Sites and buildings	21,730,368	-	-	4,929,015
Fiscal and other fixed cost programs	1,536,805	-	-	-
Food service	-	12,437,829	-	-
Community education and services	458,082	-	18,408,404	-
<b>Capital outlay</b>				
District support services	866,354	-	-	-
Elementary and secondary regular instruction	537,986	-	-	-
Vocational education instruction	51,847	-	-	-
Special education instruction	17,779	-	-	-
Instructional support services	88,765	-	-	-
Pupil support services	365,858	-	-	-
Sites and buildings	3,345,421	-	-	31,558,223
Food service	-	99,682	-	-
Community education and services	-	-	148,591	-
<b>Debt service</b>				
Principal	2,967,603	-	-	-
Interest and fiscal charges	560,261	-	-	-
Total expenditures	<u>292,641,884</u>	<u>12,537,511</u>	<u>18,903,956</u>	<u>36,487,238</u>
Excess of revenues over (under) expenditures	9,185,405	440,014	(733,414)	(35,304,828)
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	95,080	-	-	-
Insurance recoveries	897	-	-	-
Bond issuance	6,735,000	-	-	31,521,970
Bond premium	231,552	-	-	1,974,541
Debt proceeds	143,148	-	-	-
Total other financing sources (uses)	<u>7,205,677</u>	<u>-</u>	<u>-</u>	<u>33,496,511</u>
Net change in fund balances	16,391,082	440,014	(733,414)	(1,808,317)
<b>Fund Balances</b>				
Beginning of year	70,319,253	8,680,419	4,060,710	40,645,774
End of year	<u>\$ 86,710,335</u>	<u>\$ 9,120,433</u>	<u>\$ 3,327,296</u>	<u>\$ 38,837,457</u>

See notes to basic financial statements.

Debt Service	Governmental Funds
\$ 23,938,796	\$ 76,390,861
520,549	34,018,034
1,039,762	228,415,629
-	20,384,818
-	447,531
25,499,107	359,656,873
-	10,610,571
-	12,318,191
-	115,853,133
-	4,401,291
-	60,790,744
-	15,571,303
-	40,916,483
-	26,659,383
-	1,536,805
-	12,437,829
-	18,866,486
-	866,354
-	537,986
-	51,847
-	17,779
-	88,765
-	365,858
-	34,903,644
-	99,682
-	148,591
18,195,000	21,162,603
9,334,021	9,894,282
27,529,021	388,099,610
(2,029,914)	(28,442,737)
-	95,080
-	897
983,030	39,240,000
-	2,206,093
-	143,148
983,030	41,685,218
(1,046,884)	13,242,481
5,761,581	129,467,737
\$ 4,714,697	\$ 142,710,218

**Independent School District No. 535  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the  
Statement of Activities - Governmental Funds  
Year Ended June 30, 2025**

Net change in fund balances - total governmental funds	\$ 13,242,481
 Amounts reported for governmental activities in the Statement of Activities are different because:	
 Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the useful lives as depreciation or amortization expense.	
Capital outlays	42,881,482
Depreciation/amortization expense	(23,657,626)
Disposal of capital assets	(74,850)
 Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	
	(2,519,065)
 Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	
	1,418,162
 Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	
	21,162,603
 Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	
	5,547,623
 Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	
	247,748
 Governmental funds report the effect of bond premiums and deferred amounts on refunding when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	
	1,498,372
 Proceeds from long-term debt, including bond premiums, are recognized as an other financing source, increasing fund balance in the governmental fund statements, but have no effect on net position in the Statement of Activities.	
	(41,625,804)
 The internal service funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities and obligations.	
	(2,552,212)
 Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
	(10,321)
 Change in net position - governmental activities	 <u>\$ 15,558,593</u>

**Independent School District No. 535**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2025**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 48,418,606	\$ 48,647,630	\$ 48,598,341	\$ (49,289)
Other local and county revenues	18,577,384	20,899,849	24,033,924	3,134,075
Revenue from state sources	213,045,130	216,951,754	217,679,695	727,941
Revenue from federal sources	9,741,088	14,083,597	11,515,329	(2,568,268)
Total revenues	<u>289,782,208</u>	<u>300,582,830</u>	<u>301,827,289</u>	<u>1,244,459</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	10,552,406	10,649,896	10,610,571	(39,325)
District support services	15,539,086	13,357,407	12,318,191	(1,039,216)
Elementary and secondary regular instruction	112,772,541	121,654,588	115,853,133	(5,801,455)
Vocational education instruction	4,042,774	4,453,945	4,401,291	(52,654)
Special education instruction	65,242,020	62,752,574	60,790,744	(1,961,830)
Instructional support services	14,239,018	16,096,741	15,571,303	(525,438)
Pupil support services	39,851,530	41,193,039	40,569,522	(623,517)
Sites and buildings	24,205,315	23,196,821	21,730,368	(1,466,453)
Fiscal and other fixed cost programs	4,457,075	2,229,923	1,536,805	(693,118)
Community education and services	533,149	478,532	458,082	(20,450)
<b>Capital outlay</b>				
District support services	17,000	866,354	866,354	-
Elementary and secondary regular instruction	161,720	543,238	537,986	(5,252)
Vocational education instruction	-	51,889	51,847	(42)
Special education instruction	-	17,779	17,779	-
Instructional support services	100,000	51,230	88,765	37,535
Pupil support services	6,393	355,129	365,858	10,729
Sites and buildings	864,260	3,975,003	3,345,421	(629,582)
<b>Debt service</b>				
Principal	3,373,769	3,135,702	2,967,603	(168,099)
Interest and fiscal charges	552,504	593,460	560,261	(33,199)
Total expenditures	<u>296,510,560</u>	<u>305,653,250</u>	<u>292,641,884</u>	<u>(13,011,366)</u>
Excess of revenues over (under) expenditures	(6,728,352)	(5,070,420)	9,185,405	14,255,825
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	20,000	81,549	95,080	13,531
Bond issuance	-	6,735,000	6,735,000	-
Bond premium	-	231,552	231,552	-
Insurance recoveries	-	658	897	239
Debt proceeds	-	143,148	143,148	-
Total other financing sources (uses)	<u>20,000</u>	<u>7,191,907</u>	<u>7,205,677</u>	<u>13,770</u>
Net change in fund balance	<u>\$ (6,708,352)</u>	<u>\$ 2,121,487</u>	16,391,082	<u>\$ 14,269,595</u>
<b>Fund Balance</b>				
Beginning of year			<u>70,319,253</u>	
End of year			<u>\$ 86,710,335</u>	

See notes to basic financial statements.

**Independent School District No. 535**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - Food Service Fund**  
**Year Ended June 30, 2025**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Other local and county revenues	\$ 235,000	\$ 280,000	\$ 367,992	\$ 87,992
Revenue from state sources	5,384,927	5,486,439	5,478,784	(7,655)
Revenue from federal sources	6,643,195	6,550,674	6,702,718	152,044
Sales and other conversion of assets	271,000	332,700	428,031	95,331
Total revenues	<u>12,534,122</u>	<u>12,649,813</u>	<u>12,977,525</u>	<u>327,712</u>
<b>Expenditures</b>				
Current				
Food service	12,572,985	12,973,248	12,437,829	(535,419)
Capital outlay				
Food service	180,000	139,410	99,682	(39,728)
Total expenditures	<u>12,752,985</u>	<u>13,112,658</u>	<u>12,537,511</u>	<u>(575,147)</u>
Net change in fund balance	<u>\$ (218,863)</u>	<u>\$ (462,845)</u>	440,014	<u>\$ 902,859</u>
<b>Fund Balance</b>				
Beginning of year			<u>8,680,419</u>	
End of year			<u>\$ 9,120,433</u>	

Independent School District No. 535  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balance -  
Budget and Actual - Community Service Fund  
Year Ended June 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 4,016,495	\$ 4,010,834	\$ 3,853,724	\$ (157,110)
Other local and county revenues	6,605,138	7,740,937	7,932,659	191,722
Revenue from state sources	3,717,636	4,582,590	4,217,388	(365,202)
Revenue from federal sources	642,330	2,404,829	2,166,771	(238,058)
Total revenues	<u>14,981,599</u>	<u>18,739,190</u>	<u>18,170,542</u>	<u>(568,648)</u>
<b>Expenditures</b>				
Current				
Pupil support services	-	459,181	346,961	(112,220)
Community education and services	15,121,512	17,880,682	18,408,404	527,722
Capital outlay				
Community education and services	515,000	621,216	148,591	(472,625)
Total expenditures	<u>15,636,512</u>	<u>18,961,079</u>	<u>18,903,956</u>	<u>(57,123)</u>
Net change in fund balance	<u>\$ (654,913)</u>	<u>\$ (221,889)</u>	(733,414)	<u>\$ (511,525)</u>
<b>Fund Balance</b>				
Beginning of year			<u>4,060,710</u>	
End of year			<u>\$ 3,327,296</u>	

Independent School District No. 535  
Statement of Net Position - Proprietary Funds  
June 30, 2025

	Governmental Activities - Internal Service Funds
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 4,087,191
Investments	570,023
Accounts receivable	100,640
Interest receivable	4,615
	4,615
Total current assets	\$ 4,762,469
<b>Liabilities and Net Position</b>	
Current liabilities	
Accounts payable	\$ 962,043
Claims payable	3,958,974
Total current liabilities	4,921,017
<b>Net Position</b>	
Restricted for	
Health and dental insurance trust	(1,247,924)
Unrestricted	1,089,376
Total net position	(158,548)
Total liabilities and net position	\$ 4,762,469

Independent School District No. 535  
Statement of Revenues, Expenses, and Changes  
in Fund Net Position - Proprietary Funds  
Year Ended June 30, 2025

	Governmental Activities - Internal Service Funds
<b>Operating Revenues</b>	
Charges for services	<u>\$ 41,415,650</u>
<b>Operating Expenses</b>	
Employee benefits	43,009,547
Administrative expense	1,293,901
Purchased services	2,282
Supplies and materials	5,631
Other expenses	13,334
Total operating expenses	<u>44,324,695</u>
Operating loss	(2,909,045)
<b>Nonoperating Revenues</b>	
Investment income	199,840
Other revenue	156,993
Total nonoperating revenues	<u>356,833</u>
Change in net position	(2,552,212)
<b>Net Position</b>	
Beginning of year	<u>2,393,664</u>
End of year	<u><u>\$ (158,548)</u></u>

Independent School District No. 535  
Statement of Cash Flows - Proprietary Funds  
As of June 30, 2025

	Governmental Activities - Internal Service Funds
<b>Cash Flows - Operating Activities</b>	
Receipts from interfund services provided	\$ 41,412,358
Employee claims paid	(41,439,887)
Payments for administrative costs	(2,053,651)
Payments for services, supplies, and materials	(21,247)
Net cash flows - operating activities	(2,102,427)
 <b>Cash Flows - Investment Activities</b>	
Proceeds from maturities of investment securities	2,827,517
Purchase of investment securities	(117,305)
Interest received	171,964
Net cash flows - investment activities	2,882,176
 <b>Cash Flows - Noncapital and Related Financing Activities</b>	
Receipt of settlement	156,993
 Net change in cash and cash equivalents	936,742
 <b>Cash and Cash Equivalents</b>	
Beginning of year	3,150,449
End of year	\$ 4,087,191
 <b>Reconciliation of Operating Income to Net Cash Flows - Operating Activities</b>	
Operating loss	\$ (2,909,045)
Adjustments to reconcile operating income to net cash flows - operating activities	
Accounts receivable	(3,292)
Prepaid items	172,595
Salaries and benefits payable	(207)
Accounts payable	(759,543)
Claims payable	1,397,065
Net adjustments	806,618
Net cash flows - operating activities	\$ (2,102,427)

**Independent School District No. 535  
Statement of Fiduciary Net Position  
Year Ended June 30, 2025**

	Reimbursement Account Trust	Donations and Scholarships	Irrevocable OPEB Trust
<b>Assets</b>			
<b>Current</b>			
Cash and investments	\$ 11,933,459	\$ 1,500	\$ 22,392,647
Interest receivable	-	-	351
<b>Total assets</b>	<b>11,933,459</b>	<b>1,500</b>	<b>22,392,998</b>
<b>Liabilities</b>			
Accounts and contracts payable	4,032	-	14,776
Claims payable	6,886	-	-
<b>Total liabilities</b>	<b>10,918</b>	<b>-</b>	<b>14,776</b>
<b>Net Position</b>			
Held in trust	<u>\$ 11,922,541</u>	<u>\$ 1,500</u>	<u>\$ 22,378,222</u>

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

	Reimbursement Account Trust	Donations and Scholarships	Irrevocable OPEB Trust
<b>Additions</b>			
Contributions	\$ 3,712,475	\$ 125,925	\$ -
Earnings on investments	232,787	-	2,086,072
<b>Total additions</b>	<b>3,945,262</b>	<b>125,925</b>	<b>2,086,072</b>
<b>Deductions</b>			
Benefits Paid	3,124,479	-	-
Administrative expenses	61,119	-	6,780
Scholarships	-	-	-
Other expenses	-	125,925	-
<b>Total deductions</b>	<b>3,185,598</b>	<b>125,925</b>	<b>6,780</b>
<b>Change in net position</b>	<b>759,664</b>	<b>-</b>	<b>2,079,292</b>
<b>Net Position</b>			
Beginning of year	11,162,877	1,500	20,298,930
End of year	<u>\$ 11,922,541</u>	<u>\$ 1,500</u>	<u>\$ 22,378,222</u>

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**Independent School District No. 535**  
**Notes to Basic Financial Statements**

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

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

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

**A. Reporting Entity**

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

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

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

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

**B. Basic Financial Statement Information**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position at the fund financial statement level.

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

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

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

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Private Purpose Trust, OPEB Trust, and Custodial Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these Funds are not incorporated into the government-wide statements.

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

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

**1. Revenue Recognition**

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. Other revenue is considered available if collected within six months.

**2. Recording of Expenditures**

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

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor the constraints on the specific purpose for which amounts in these funds can be spent. If resources from more than one fund balance classification could be spent, the school will follow the approved District plan for each of the areas. If there is no plan, the District will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

**Independent School District No. 535**  
**Notes to Basic Financial Statements**

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund is employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Amounts reported as program revenues include charges to customers or applicants for goods, services or privileges provided, operating grants and contributions, and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**Description of Funds:**

**Major Funds:**

General Fund - This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

Capital Projects - Building Construction Fund - This fund is used to account for financial resources used for the acquisition or construction of major capital facilities funded with bond issues or special levies.

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

**Proprietary Funds:**

Health and Dental Care Trust Internal Service Fund - This fund accounts for the operations of the District's Health and Dental Care Self-Insurance Program. Self-insurance costs are charged to the various funds based on established premium rates.

Workers' Compensation Internal Service Fund - This fund accounts for the operations of the District's Workers' Compensation Self-Insurance Program. Self-insurance costs are charged to the various funds based on established premium rates.

**Fiduciary Funds:**

Health Reimbursement Account Trust Fund - This fund is used for reporting resources set aside and held in a trust arrangement for employee benefits.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

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

**Description of Funds (Continued):**

**Fiduciary Funds: (Continued)**

Donations and Scholarships Custodial Fund - This fund is used to account for assets held by the District on behalf of third parties to be used for scholarships and student activities.

OPEB Irrevocable Trust Fund - This fund is used to account for the financial resources set aside and held in an irrevocable trust arrangement for postemployment benefits.

**D. Deposits and Investments**

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

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

Cash and investments at June 30, 2025, were comprised of deposits, and investments as outlined in Note 2. Investments are reported at fair value as disclosed in Note 2.

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

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

In accordance with GASB Statement No. 79, the various MNTrust securities, and money market funds are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MNTrust Investment Shares. 30-day advance notice is required for withdrawals from the MNTrust Limited Term Duration Series. Seven days notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

**Independent School District No. 535**  
**Notes to Basic Financial Statements**

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

**E. Property Tax Receivable**

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

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

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following fiscal year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2024, less various components, and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in 2025. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventories**

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

**H. Prepaid Items**

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

**I. Property Taxes**

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

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

**J. Capital Assets**

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The District capitalizes equipment and furnishings that have individual unit costs of \$10,000 or more. The District also capitalizes purchases of equipment and furnishings that are less than the \$10,000 threshold if the total purchase of those assets is \$25,000 or more. The District has a threshold of \$100,000 for capitalizing buildings and improvements. 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.

**Independent School District No. 535**  
**Notes to Basic Financial Statements**

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

**J. Capital Assets (Continued)**

Capital assets are recorded in the District-wide basic financial statement but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 4 to 20 years for equipment and furnishings.

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

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

**K. Right-to-Use Lease Assets/Lease Liabilities**

The District recorded right-to-use lease assets as a result of implementing GASB Statement No. 87, Leases. The right-to-use lease assets are initially measured at an amount equal to the initial measurement of the lease liability plus any payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

Key estimates and judgments related to leases include (1) the discount rate, (2) lease term, (3) lease payments, and (4) amortization.

The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District determines its estimated borrowing rate based on the applicable State and Local Government Securities rate. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase options the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a re-measurement of the leases and will remeasure the right-to-use lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease liability.

**L. Subscription-Based Information Technology Arrangements**

The District recorded subscription assets as a result of implementing GASB Statement No. 96, Subscription-based information technology arrangements. The subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus any payments made prior to the subscription term, less subscription incentives, and plus ancillary charges necessary to place the subscription into service. The subscription assets are amortized on a straight-line basis over the life of the related subscription.

Key estimates and judgments related to leases include (1) the discount rate, (2) subscription term, (3) subscription payments, and (4) amortization.

**Independent School District No. 535**  
**Notes to Basic Financial Statements**

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

**L. Subscription-Based Information Technology Arrangements (Continued)**

The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District determines its estimated borrowing rate based on the applicable State and Local Government Securities rate. The subscription term includes the noncancellable period of the subscription. Payments included in the measurement of the subscription liability are composed of fixed payments and purchase options the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a re-measurement of the subscriptions and will remeasure the subscription assets and liabilities if certain changes occur that are expected to significantly affect the amount of the subscription liability.

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

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate basic financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The District has three items that qualify for reporting in this category. A deferred charge on refunding, deferred outflows of resources related to pensions, and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources related to pensions are recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB are recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has five types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

**Independent School District No. 535**  
**Notes to Basic Financial Statements**

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

**M. Deferred Outflows/Inflows of Resources (Continued)**

The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. Deferred inflows of resources related to pensions are recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. Deferred inflows of resources related to OPEB are recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. The last item is a deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**N. Long-Term Obligations**

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

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

**O. Compensated Absences**

The District has employee and union contracts with several different employee groups. Employee benefits under the contracts are different, but generally include provisions for sick leave, vacation leave, and termination benefits.

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

Termination benefits generally vest after completion of ten years of service and attaining age 55. The maximum benefit obligation is generally based on accumulated unused sick leave, years of service, or a percentage of salary, depending on the employment contract. A liability is recorded for vested benefits and unvested benefits which are expected to vest in future periods. The vesting method using historical data was used to calculate the liability.

**Independent School District No. 535**  
**Notes to Basic Financial Statements**

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

**P. Pensions**

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

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

**Q. Postemployment Benefits Other than Pensions**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments, which are reported at amortized cost, which approximates fair value.

**R. Fund Equity**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

**1. Classification**

- **Nonspendable Fund Balances** - These are amounts that cannot be spent because they are either not in spendable form, or they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- **Restricted Fund Balances** - These are amounts that are restricted to specific purposes either by constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through enabling legislation.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**R. Fund Equity (Continued)**

**1. Classification (Continued)**

- Committed Fund Balances - These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board (highest level of decision making authority) by majority vote.
- Assigned Fund Balances - These are unrestricted funds constrained by the District's intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. The School Board delegates to the Superintendent, and Executive Director of Business and Operations, the authority to assign fund balances for specific purposes.
- Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

**2. Minimum Fund Balance Policy**

It is the policy of this School District to maintain an unassigned general fund balance of no less than 8% of budgeted general fund expenditures.

**S. Net Position**

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

**T. Use of Estimates**

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

**U. Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**U. Risk Management (Continued)**

Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage in any of the past three years.

**V. Self Insurance Claims**

This liability represents an estimate of health, dental, and workers' compensation claims incurred but not reported as of June 30, 2025.

**W. Budgetary Information**

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

Procedurally, in establishing the budgetary data reflected in these basic financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits**

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

Checking accounts	\$ 4,994,037
Savings and money market accounts	21,077,386
Certificates of deposit	<u>4,971,312</u>
 Total deposits	 <u><u>\$ 31,042,735</u></u>

Custodial Credit Risk - Deposits: The District has a policy in place to address custodial credit risk for deposits, stating all deposits will be invested at financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC) system and be willing and capable of posting collateral, private insurance, or letters of credit for funds in excess of FDIC insurable limits and in amounts required by the District. At June 30, 2025, the District was not exposed to custodial credit risk on deposits as all amounts are properly insured or collateralized.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**B. Investments**

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

Investment	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
<b>District Investments</b>					
Federal Farm Credit Bank Bonds	\$ 3,386,509	\$ 664,421	\$ -	\$ 1,095,878	\$ 1,626,210
Federal Home Loan Mortgage Corporation	755,733	-	286,166	33,897	435,670
Federal National Mortgage Association	390,293	-	-	-	390,293
FHLB Bonds	8,007,586	98,397	778,392	2,034,717	5,096,080
General Obligation Bonds	9,008,769	1,233,203	1,855,558	3,493,542	2,426,466
MN Trust Term Series	19,000,000	19,000,000	-	-	-
MN Trust Investment Shares	114,191,952	114,191,952	-	-	-
MN Trust Limited Term Duration	10,088,592	10,088,592	-	-	-
US Treasury Notes	5,836,712	2,280,206	2,259,733	699,306	597,467
<b>HRA Trust Investments</b>					
AUL Fixed Interest Fund	6,634,917	-	-	-	6,634,917
Mutual Funds	165,774	165,774	-	-	-
<b>OPEB Trust Investments</b>					
Mutual Funds	22,392,647	22,392,647	-	-	-
Total investments	<u>\$ 199,859,484</u>	<u>\$ 170,115,192</u>	<u>\$ 5,179,849</u>	<u>\$ 7,357,340</u>	<u>\$ 17,207,103</u>

Interest Rate Risk: This is the risk that market value of securities will fall due to the changes in market interest rates. The District's policy states investment maturities are scheduled to coincide with projected school district cash flow needs. Within these parameters, it is the District's policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses arising from rising interest rates. Information about the sensitivity of the fair values of the District's investments to market Interest rate risk fluctuations is provided by the above table that shows the distribution of the District's investments by maturity.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**B. Investments (Continued)**

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* §§ 118A.04 and 118A.05 limit investments based on type. The District's investment policy limits investments to those specified in the above statutes. The District's credit ratings of June 30, 2025, are as follows:

Type	AAA	AA	A	Not Rated	Total
AUL Fixed Interest Fund	\$ -	\$ -	\$ -	\$ 6,634,917	\$ 6,634,917
Federal Farm Credit Bank Bonds	-	3,386,509	-	-	3,386,509
Federal Home Loan Mortgage Corporation	-	755,733	-	-	755,733
Federal National Mortgage Association Bonds and MBS	-	390,293	-	-	390,293
FHLB Bonds	-	8,007,586	-	-	8,007,586
General Obligation Bonds	3,421,984	4,744,426	842,359	-	9,008,769
Mutual Funds	-	-	-	-	-
HRA Trust Mutual Funds	-	-	-	165,774	165,774
OPEB Trust Mutual Funds	123,107	-	-	22,269,540	22,392,647
MN Trust Limited Term Duration	-	-	-	10,088,592	10,088,592
MN Trust Investment Shares	-	-	-	114,191,952	114,191,952
MN Trust Term Series	-	-	-	19,000,000	19,000,000
US Treasury Notes	3,918,437	1,918,275	-	-	5,836,712
<b>Total</b>	<b>\$ 7,463,528</b>	<b>\$ 19,202,822</b>	<b>\$ 842,359</b>	<b>\$ 172,350,775</b>	<b>\$ 199,859,484</b>

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District will diversify its investment to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities.

Custodial Credit Risk - Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states all investments securities shall be held in third party safekeeping by an institution designed as a custodial agent. For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District has the following recurring fair value measurements as of June 30, 2025:

- Investments of \$28,395,134 are valued using a quoted market prices (Level 1 inputs)
- Investments of \$28,183,807 are valued using a matrix pricing model (Level 2 inputs)
- Investments of \$143,280,544 are valued using amortized cost

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**C. Deposits and Investments**

Summary of cash, deposits, and investments as of June 30, 2025:

Deposits (Note 2.A.)	\$ 31,042,734
Investments (Note 2.B.)	199,859,484
Petty cash	47,297
	<hr/>
Total deposits and investments	<u>\$ 230,949,515</u>

Cash, deposits, and investments are presented in the June 30, 2025, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 196,618,128
Cash with fiscal agent	3,781
Statement of Fiduciary Net Position	
Fiduciary funds	<u>34,327,606</u>
Total	<u>\$ 230,949,515</u>

**Independent School District No. 535  
Notes to Basic Financial Statements**

**NOTE 3 - CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land and land improvements	\$ 10,130,178	\$ -	\$ -	\$ 10,130,178
Construction in progress	55,409,906	38,620,535	55,543,112	38,487,329
Total capital assets not being depreciated	<u>65,540,084</u>	<u>38,620,535</u>	<u>55,543,112</u>	<u>48,617,507</u>
Capital assets being depreciated				
Land improvements	31,917,389	4,339,790	406,007	35,851,172
Buildings	531,156,238	49,713,867	185,932	580,684,173
Equipment	40,483,985	4,678,181	292,554	44,869,612
Total capital assets being depreciated	<u>603,557,612</u>	<u>58,731,838</u>	<u>884,493</u>	<u>661,404,957</u>
Less accumulated depreciation for				
Land improvements	9,917,684	1,105,971	356,601	10,667,054
Buildings	233,669,802	16,622,191	185,932	250,106,061
Equipment	19,494,453	4,188,485	267,110	23,415,828
Total accumulated depreciation	<u>263,081,939</u>	<u>21,916,647</u>	<u>809,643</u>	<u>284,188,943</u>
Total capital assets being depreciated, net	<u>340,475,673</u>	<u>36,815,191</u>	<u>74,850</u>	<u>377,216,014</u>
Governmental activities, capital assets, net	<u>\$ 406,015,757</u>	<u>\$ 75,435,726</u>	<u>\$ 55,617,962</u>	<u>\$ 425,833,521</u>

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Right-to-use assets being amortized				
Lease buildings	\$ 711,289	\$ -	\$ 121,027	\$ 590,262
Lease equipment	1,527,382	-	-	1,527,382
Subscription assets	3,025,552	1,072,221	-	4,097,773
Total right-to-use assets, being amortized	<u>5,264,223</u>	<u>1,072,221</u>	<u>121,027</u>	<u>6,215,417</u>
Less accumulated amortization for				
Lease buildings	542,489	79,096	121,027	500,558
Lease equipment	835,730	280,454	-	1,116,184
Subscription assets	1,300,707	1,381,429	-	2,682,136
Total right-to-use assets, accumulated amortization	<u>2,678,926</u>	<u>1,740,979</u>	<u>121,027</u>	<u>4,298,878</u>
Governmental activities, Right-to-use assets, net	<u>\$ 2,585,297</u>	<u>\$ (668,758)</u>	<u>\$ -</u>	<u>\$ 1,916,539</u>

Depreciation/amortization expense for the year ended June 30, 2025, was charged to the following functions:

District Support Services	\$ 1,433,456
Elementary and Secondary Regular Instruction	20,188,014
Vocational Education Instruction	96,460
Special Education Instruction	31,429
Community Education and Services	259,873
Instructional Support Services	41,984
Pupil Support Services	230,727
Sites and Buildings	968,551
Food Service	<u>407,132</u>
 Total depreciation/amortization expense	 <u>\$ 23,657,626</u>

**Independent School District No. 535**  
**Notes to Basic Financial Statements**

**NOTE 4 - LONG-TERM DEBT**

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

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. Bonds including						
Refunding Bonds						
2013A Alt. Facilities Bonds	03/28/13	2%-3%	\$ 14,870,000	02/01/28	\$ 6,265,000	\$ 2,060,000
2015A Alt. Facilities Bonds	05/13/15	1.3%-3.25%	4,180,000	02/01/36	2,520,000	200,000
2015B Refunding Bonds	05/13/15	3%-5%	9,755,000	02/01/28	3,395,000	1,090,000
2016A Alt. Facilities Bonds	03/17/16	3.00%	11,295,000	02/01/36	7,295,000	570,000
2016C Facilities Maintenance Bonds	08/11/16	2.5%-5%	13,605,000	02/01/37	9,515,000	670,000
2017B Facilities Maintenance Bonds	08/30/17	2.625%-5%	4,110,000	02/01/33	2,575,000	280,000
2018A Facilities Maintenance Bonds	12/19/18	3%-5%	24,130,000	02/01/35	19,590,000	1,175,000
2020A Building Bonds	01/30/20	2%-4%	170,410,000	02/01/40	137,630,000	6,300,000
2020B Facilities Maintenance Bonds	11/05/20	1.375%-3%	38,520,000	02/01/40	35,580,000	1,525,000
2020B Refunding Bonds	11/05/20	1.375%-3%	8,430,000	02/01/29	4,460,000	1,060,000
2022A Facilities Maintenance Bonds	05/12/22	3.25%-5%	49,120,000	02/01/39	49,120,000	-
2025A Facilities Maintenance Bonds	06/12/25	4.25-5%	32,505,000	02/01/42	32,505,000	-
Total G.O. bonds					310,450,000	14,930,000
Certificates of participation						
2012B Certificates of Participation	12/01/12	2%-3%	16,455,000	02/01/29	4,385,000	1,190,000
2014A Certificates of Participation	03/01/14	2%-3.65%	6,560,000	02/01/34	3,435,000	340,000
2017A Certificates of Participation	08/30/17	3.00%	7,945,000	02/01/33	4,730,000	530,000
2025B Certificates of Participation	06/12/25	5.00%	6,735,000	04/01/28	6,735,000	2,260,000
Total certificates of participation					19,285,000	4,320,000
Notes from direct borrowings						
Ideal Energies - Longfellow Solar Array	10/11/22	2.72%	72,728	07/31/43	52,467	1,691
Ideal Energies - Dakota Solar Array	10/11/22	2.72%	72,728	07/31/43	52,467	1,691
Ideal Energies - Hoover Solar Array	01/13/25	2.72%	36,562	01/01/45	36,107	1,043
Total notes from direct borrowing					141,041	4,425
Lease liability					521,547	357,477
Subscription liability					514,134	385,030
Bond premiums					18,138,424	-
Compensated absences payable					19,156,286	1,583,199
Total long-term liabilities					\$ 368,206,432	\$ 21,580,131

The long-term bond and certificate of participation liabilities listed above were issued to finance the acquisition, construction, and refurbishing of School facilities, purchase capital assets, or refinance (refund) previous bond issues. Bonds and certificates of participation will be retired with assets from the Debt Service Funds while the notes from direct borrowing, lease liability, subscription liability, compensated absences and severance liabilities will be liquidated by the General and Internal Service Funds.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**B. Notes from Direct Borrowings**

On October 11, 2022, the District entered into a financed purchase agreement related to solar array purchases for a total lease obligation of \$107,740. On January 13, 2025, the District entered into a financed purchase agreement related to solar array purchases for a total lease obligation of \$36,563. The leases have a term of twenty years requiring annual payments as illustrated below.

**C. Lease Liability**

The District entered into lease agreements for buildings and equipment. The lease agreements include annual principal and interest payments as noted on the following page. Interest and discount rates on the lease agreements range from 0.36% to 5.74%.

**D. Subscription Liability**

The District entered into agreements for various technology subscriptions and licenses. The agreements include annual principal and interest payments as noted on the following page. Interest and discount rates on the agreements range from 0.36% to 5.00%.

**E. Minimum Debt Payments**

Year Ending June 30,	G.O. Bonds			Certificates of Participation		
	Principal	Interest	Total	Principal	Interest	Total
2026	\$ 14,930,000	\$ 9,617,168	\$ 24,547,168	\$ 4,320,000	\$ 655,362	\$ 4,975,362
2027	18,175,000	9,634,788	27,809,788	4,335,000	546,976	4,881,976
2028	19,765,000	8,930,363	28,695,363	4,470,000	372,064	4,842,064
2029	18,475,000	8,162,138	26,637,138	1,625,000	196,358	1,821,358
2030	19,460,000	7,425,956	26,885,956	970,000	149,245	1,119,245
2031-2035	106,265,000	26,950,531	133,215,531	3,565,000	269,530	3,834,530
2036-2040	106,145,000	10,791,406	116,936,406	-	-	-
2041-2045	7,235,000	464,313	7,699,313	-	-	-
<b>Total</b>	<b>\$ 310,450,000</b>	<b>\$ 81,976,662</b>	<b>\$ 392,426,662</b>	<b>\$ 19,285,000</b>	<b>\$ 2,189,534</b>	<b>\$ 21,474,534</b>

Year Ending June 30,	Notes from Direct Borrowings			Lease Liability		
	Principal	Interest	Total	Principal	Interest	Total
2026	\$ 4,425	\$ 3,782	\$ 8,207	\$ 357,477	\$ 14,969	\$ 372,446
2027	4,694	3,658	8,352	164,070	4,938	169,008
2028	4,992	3,527	8,519	-	-	-
2029	5,303	3,387	8,690	-	-	-
2030	5,624	3,239	8,863	-	-	-
2031-2035	33,400	13,648	47,048	-	-	-
2036-2040	43,493	8,452	51,945	-	-	-
2041-2045	39,110	2,082	41,192	-	-	-
<b>Total</b>	<b>\$ 141,041</b>	<b>\$ 41,775</b>	<b>\$ 182,816</b>	<b>\$ 521,547</b>	<b>\$ 19,907</b>	<b>\$ 541,454</b>

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**E. Minimum Debt Payments (Continued)**

Year Ending June 30,	Subscription Liability		
	Principal	Interest	Total
2026	\$ 385,030	\$ 19,430	\$ 404,460
2027	129,104	3,906	133,010
Total	<u>\$ 514,134</u>	<u>\$ 23,336</u>	<u>\$ 537,470</u>

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

	Beginning Balance	Additions	Reductions	Ending Balance
Long-Term Liabilities				
G.O. Bonds	\$ 294,020,000	\$ 32,505,000	\$ 16,075,000	\$ 310,450,000
Certificates of participation	16,670,000	6,735,000	4,120,000	19,285,000
Notes from direct borrowings	108,107	36,563	3,629	141,041
Lease liability	871,962	-	350,415	521,547
Subscription liability	984,545	143,148	613,559	514,134
Bond premiums	17,391,384	2,206,093	1,459,053	18,138,424
Compensated absences payable	<u>16,637,221</u>	<u>2,519,065</u>	<u>-</u>	<u>19,156,286</u>
Total long-term liabilities	<u>\$ 346,683,219</u>	<u>\$ 44,144,869</u>	<u>\$ 22,621,656</u>	<u>\$ 368,206,432</u>

The change in the compensated absences liability is presented as a net change.

**NOTE 5 - FUND BALANCES**

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

**A. Restricted/Reserved Fund Equity**

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

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

Restricted/Reserved for Scholarships - This balance represents available resources for the scholarship funds.

Restricted/Reserved for Staff Development - This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* § 122A.61, subdivision 1).

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**A. Restricted/Reserved Fund Equity (Continued)**

Restricted/Reserved for Literacy Incentive Aid - This balance represents the resources available to support implementation of evidence-based reading instruction.

Restricted/Reserved for Operating Capital - This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

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

Restricted/Reserved for Early Childhood and Family Education - This balance represents the resources available to provide services for early childhood and family education programming.

Restricted/Reserved for Area Learning Center - This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* § 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

Restricted/Reserved for School Readiness - This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* § 124D.16).

Restricted/Reserved for Adult Basic Education - This account will represent the balance of carryover monies for all activity involving adult basic education. This would include all state aid and any grants or local funding used in support of ABE.

Restricted/Reserved for Safe Schools Revenue - The unspent resources available from the Safe Schools revenue must be restricted in this account for future use.

Restricted/Reserved for Student Support Personnel Aid - This balance represents available resources to be used for student support personnel that are in addition to current staff levels.

Restricted/Reserved for Basic Skills Programs - This balance represents resources available for the basic skills uses listed in *Minnesota Statute* § 126C.15, subd. 1.

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

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

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**A. Restricted/Reserved Fund Equity (Continued)**

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

Restricted/Reserved for Medical Assistance - This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* § 125A.21, subd. 3).

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

Restricted for Food Service - This balance represents the accumulation of the activity to provide the food service program.

Restricted for Capital Projects - This balance represents the remaining positive fund balance of the Capital Projects Fund.

**B. Assigned Fund Equity**

Assignment of the fund balance indicates that portion of the fund balance that reflects a tentative plan for future use of the funds. The following is a summary of the assigned fund balances:

Curriculum Resources	\$	1,128,171
Carryover of Unallocated Site Funds		1,222,935
Technology COP		6,830,214
Carryover of Unspent Classroom Fees and Donations		77,757
Carryover of Unspent School Supply Allocations		1,003,256
Post-Secondary Enrollment Options Joint Ventures		682,652
Separation/Retirement		5,796,345
Technology Purchases		2,082,428
Special Education Bus Replacement		55,206
Attendance Pilot		608,483
		608,483
Total	\$	19,487,447

**C. Government-Wide Restrictions**

Net position restricted for "General Purposes" are comprised of the total General Fund restricted fund balances.

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

The District participates in various pension plans. Total pension expense for the year ended June 30, 2025, was \$13,970,596. The components of pension expense are noted in the following plan summaries.

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

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association**

**A. Plan Description**

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

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

**B. Benefits Provided**

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

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

*Tier I Benefits*

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

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

With these provisions:

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

Or

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

*Tier II Benefits*

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

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

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

**C. Contributions**

Per *Minnesota Statutes* Chapter 354 sets the contribution rates for employees and employers. Rates for the fiscal year 2025 for coordinated were 7.75% for the employee and 8.75% for the employer. Basic rates were 11.25% for the employee and 12.75% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2025 were \$11,386,174. The District's contributions were equal to the required contributions for each year as set by state statute.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions**

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

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

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**Actuarial Information**

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

**Mortality Assumptions**

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

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

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

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

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

Changes in actuarial assumptions since the previous valuation:

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

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.0%. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 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.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability**

On June 30, 2025, the District reported a liability of \$121,580,715 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2024. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 1.9134% at the end of the measurement period and 1.8891% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 121,580,715
State's proportionate share of the net pension liability associated with the district	<u>7,951,880</u>
Total	<u><u>\$ 129,532,595</u></u>

For the year ended June 30, 2025, the District recognized pension expense of \$12,112,207. Included in this amount, the District recognized \$437,119 as pension expense for the support provided by direct aid.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$176 million to the Fund. The State of Minnesota is not included as a non-employer contributing entity in the plan pension allocation schedules for the \$176 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$3,370,697 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.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,782,954	\$ 1,549,135
Net difference between projected and actual earnings on plan investments	-	16,331,037
Changes of assumptions	11,916,274	14,498,830
Changes in proportion	3,544,419	2,279,460
Contributions to TRA subsequent to the measurement date	11,386,174	-
Total	\$ 32,629,821	\$ 34,658,462

The \$11,386,174 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026.

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

Year Ended June 30,	Pension Expense Amount
2026	\$ (6,655,567)
2027	11,177,306
2028	(8,724,037)
2029	(7,628,126)
2030	(1,584,391)
Total	\$ (13,414,815)

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

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

Sensitivity of NPL to Changes in the Discount Rate		
1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
\$ 214,115,793	\$ 121,580,715	\$ 45,427,369

**H. Pension Plan Fiduciary Net Position**

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

**Public Employees' Retirement Association**

**A. Plan Description**

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

**General Employees Retirement Plan**

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

**B. Benefits Provided**

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

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

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

**B. Benefits Provided (Continued)**

**General Employees Plan Benefits**

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

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

**C. Contributions**

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

**General Employees Fund Contributions**

General Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2025 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2025, were \$3,438,868. The District's contributions were equal to the required contributions as set by state statute.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

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

**D. Pension Costs**

General Employees Fund Pension Costs

At June 30, 2025, the District reported a liability of \$18,956,706 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$490,182.

District's proportionate share of net pension liability	\$ 18,956,706
State's proportionate share of the net pension liability associated with the District	<u>490,182</u>
Total	<u><u>\$ 19,446,888</u></u>

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.5128% at the end of the measurement period and 0.5085% for the beginning of the period.

For the year ended June 30, 2025, the District recognized pension expense of \$1,858,389 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$13,141 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedule for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$872,220 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

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

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,768,998	\$ -
Changes in actuarial assumptions	84,812	7,131,178
Difference between projected and actual investments earnings	-	5,582,224
Change in proportion	1,801,556	-
Contributions paid to PERA subsequent to the measurement date	3,438,868	-
Total	\$ 7,094,234	\$ 12,713,402

The \$3,438,868 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2026	\$ (4,858,151)
2027	(489,211)
2028	(2,257,764)
2029	(1,452,910)
Total	\$ (9,058,036)

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

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

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

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

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

**F. Actuarial Methods and Assumptions**

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

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

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

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

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

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

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

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

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

**Changes in Actuarial Assumptions**

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

**Changes in Plan Provisions**

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

**G. Discount Rate**

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

**H. Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
District's proportionate share of the PERA net pension liability	\$ 41,404,497	\$ 18,956,706	\$ 491,351

**I. Pension Plan Fiduciary Net Position**

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

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**Defined Contribution Plan**

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the Plan). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2025, 2024, and 2023 are \$1,315,624, \$1,230,409, and \$1,241,794, respectively. The related employee contributions were \$3,968,973, \$3,773,106, and \$3,793,151 for the years ended June 30, 2025, 2024, and 2023, respectively.

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

**A. Plan Description**

The District's defined benefit OPEB plan provides a single employer defined benefit health care plan to eligible retirees. The plan provides health insurance to eligible employees and their spouses through the District's self-insured health insurance plan. The District has assets designated for OPEB. These assets are in a qualified irrevocable trust which is included as a fiduciary fund in these basic financial statements. The Plan does not issue a publicly available financial report.

**B. Benefits Provided**

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

**C. Contributions**

Contribution requirements are negotiated between the District and union representatives. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement. The District contributes 50% - 100% of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2025, the District was reimbursed by its irrevocable trust for explicit and implicit cost of benefits for retirees. For fiscal year 2025, the District contributed \$1,388,812 to the plan.

**D. Members**

As of July 1, 2024, the following were covered by the benefit terms:

Active employees	2,541
Retirees and spouses receiving benefits	<u>80</u>
Total	<u><u>2,621</u></u>

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**E. Actuarial Assumptions**

The net OPEB liability was determined by an actuarial valuation as of July 1, 2024, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Net OPEB Liability

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Investment rate of return	6.10% net of investment expense
Discount Rate	6.10%
Inflation	2.50%
Healthcare cost trend increases	6.50% in 2024 decreasing to 5.00% over 6 years and then 4.00% over the next 48 years. Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.
Mortality Assumption	
Salary increases	Service graded table.

The actuarial assumptions used in the valuation measured as of June 30, 2025, were based on the results of an actuarial experience study for the period July 1, 2024, through June 30, 2025.

**Actuary's Assumption Changes**

- The expected long-term investment return changed from 6.20% to 6.10%.
- The discount rate was changed from 6.20% to 6.10%.
- The health care trend rates were updated.
- The trend on future board contributions for Administrators, Cabinet Members, Operations Professional Employees, and Principals was changed from half of the medical trend rates to the full medical trend rates.
- The percentage of retirees electing spouse coverage decreased from 40% to 10% for those not eligible for a spouse subsidy.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**E. Actuarial Assumptions (Continued)**

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

Asset Class	Target Allocation	Expected Class Return
Domestic equity	36.00 %	7.20 %
Fixed income	50.00	5.00
International equity	14.00	6.90
Total portfolio	100.00 %	6.10 %

The details of the investments and the investment policy are described in Note 2 of the District's basic financial statements.

**F. Discount Rate**

The discount rate used to measure the net OPEB liability was 6.10%. The projection of cash flows and OPEB trust assets used to determine the discount rate were based on recent employer contribution history and their stated funding policy. The OPEB trust's long-term assumed investment return was used to discount projected benefit payments for as long as projected trust assets are available to fund OPEB payments. Once projected trust assets are exhausted, the municipal bond index rate of 4.90% was applied to the remaining expected benefit payments.

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

**G. Changes in Net OPEB Liability**

Changes in the net OPEB liability are as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at July 1, 2024	\$ 20,430,907	\$ 20,298,930	\$ 131,977
Changes for the year			
Service cost	989,115	-	989,115
Interest	1,285,636	-	1,285,636
Assumption changes	1,640,575	-	1,640,575
Differences between expected and actual economic experience	(4,654,782)	847,837	(5,502,619)
Employer contributions	-	1,388,812	(1,388,812)
Projected investment return	-	1,238,235	(1,238,235)
Benefit payments	(1,388,812)	(1,388,812)	-
Administrative expenses	-	(6,779)	6,779
Net changes	<u>(2,128,268)</u>	<u>2,079,293</u>	<u>(4,207,561)</u>
Balances at June 30, 2025	<u>\$ 18,302,639</u>	<u>\$ 22,378,223</u>	<u>\$ (4,075,584)</u>

**H. OPEB Liability Sensitivity**

The following presents the District's net OPEB liability calculated using the discount rate of 6.10% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease in Discount Rate (5.10%)	Current Discount Rate (6.10%)	1% Increase in Discount Rate (7.10%)
Net OPEB liability (asset)	\$ (2,928,110)	\$ (4,075,584)	\$ (5,167,556)

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

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

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

	1% Decrease in Trend Rates (5.25% Decreasing to 4.00% then 3.00%)	Current Trend Rates (6.25% Decreasing to 5.00% then 4.00%)	1% Increase in Trend Rates (7.25% Decreasing to 6.00% then 5.00%)
Net OPEB liability (asset)	\$ (5,815,945)	\$ (4,075,584)	\$ (2,052,675)

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

For the year ended June 30, 2025, the District recognized OPEB expense of (\$29,350). At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Investment gains/losses	\$ -	\$ 602,145
Liability gains/losses	287,502	6,682,825
Changes of assumptions	1,787,339	1,379,707
Total	\$ 2,074,841	\$ 8,664,677

**Independent School District No. 535  
Notes to Basic Financial Statements**

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

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Total
2026	\$ (940,997)
2027	(1,739,367)
2028	(1,588,940)
2029	(1,474,290)
2030	(415,641)
Thereafter	(430,601)
Total	\$ (6,589,836)

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to address these risks. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from the past year.

All known claims and estimated claims incurred but not reported have been accrued as a liability. District liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

**Independent School District No. 535  
Notes to Basic Financial Statements**

**NOTE 8 - RISK MANAGEMENT (CONTINUED)**

Changes in the self-insurance funds' claims liability amounts for the past three years were as follows:

Health and Dental	Balance Beginning of Year	Claims, Expense, and Estimates	Claims Payments	Balance End of Year
2022-2023	\$ 2,557,704	\$ 35,685,806	\$ (36,107,193)	\$ 2,136,317
2023-2024	2,136,317	35,015,097	(34,971,315)	2,180,099
2024-2025	2,180,099	42,106,862	(40,674,161)	3,612,800

Workers Compensation	Balance Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance End of Year
2022-2023	\$ 183,518	\$ 903,492	\$ (866,850)	\$ 220,160
2023-2024	220,160	853,120	(691,470)	381,810
2024-2025	381,810	902,685	(938,321)	346,174

**NOTE 9 - COMMITMENTS**

At June 30, 2025, the District had various construction contract commitments for projects outstanding totaling \$17,746,426.

**NOTE 10 - JOINT USE AGREEMENT**

Effective December 1998, the City of Rochester and the District entered into a joint use agreement to provide for the operation and maintenance of a volleyball facility. The facility is operated by the City and maintained primarily by the District. Under the terms of the agreement, the District contributed approximately 45,000 square feet of land and the City obtained a grant from the State of Minnesota to finance construction of the facility. The City and the District each split 50% of the profits or deficits of the facility. For the year ended June 30, 2025, the District paid \$15,043.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Independent School District No. 535**  
**Schedule of Changes in Net OPEB Liability**  
**and Related Ratios**

	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>
<b>Total OPEB Liability</b>				
Service cost	\$ 1,105,176	\$ 944,072	\$ 1,071,606	\$ 1,139,567
Interest	913,146	953,742	1,163,167	1,213,725
Differences between expected and actual experience	-	-	1,313,660	-
Changes of assumptions	-	(1,310,485)	1,133,838	250,366
Plan changes	-	-	-	-
Benefit payments	(1,063,082)	(993,545)	(1,234,194)	(1,450,950)
Net change in total OPEB liability (asset)	<u>955,240</u>	<u>(406,216)</u>	<u>3,448,077</u>	<u>1,152,708</u>
Beginning of year	<u>18,055,649</u>	<u>19,010,889</u>	<u>18,604,673</u>	<u>22,052,750</u>
End of year	<u>\$ 19,010,889</u>	<u>\$ 18,604,673</u>	<u>\$ 22,052,750</u>	<u>\$ 23,205,458</u>
<b>Plan Fiduciary Net Pension (FNP)</b>				
Employer contributions	\$ 1,927,097	\$ 2,721,576	\$ 2,098,209	\$ 2,314,965
Net investment income	604,888	525,756	782,032	744,335
Differences between expected and actual experience	-	-	-	(1,910)
Benefit payments	(1,063,082)	(993,545)	(1,234,194)	(1,450,950)
Administrative expense	(3,998)	(4,482)	(5,029)	(5,630)
Net change in plan fiduciary net position	<u>1,464,905</u>	<u>2,249,305</u>	<u>1,641,018</u>	<u>1,600,810</u>
Beginning of year	<u>6,846,977</u>	<u>8,311,882</u>	<u>10,561,187</u>	<u>12,202,205</u>
End of year	<u>\$ 8,311,882</u>	<u>\$ 10,561,187</u>	<u>\$ 12,202,205</u>	<u>\$ 13,803,015</u>
Net OPEB liability (asset)	<u>\$ 10,699,007</u>	<u>\$ 8,043,486</u>	<u>\$ 9,850,545</u>	<u>\$ 9,402,443</u>
Plan FNP as a percentage of the total OPEB liability (asset)	43.72%	56.77%	55.33%	59.48%
Covered-employee payroll	\$ 124,624,581	\$ 128,363,319	\$ 128,288,152	\$ 132,136,797
Net OPEB liability (asset) as a percentage of covered-employee payroll	8.58%	6.27%	7.68%	7.12%

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

<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>	<u>June 30, 2025</u>
\$ 1,206,129	\$ 1,338,352	\$ 1,010,299	\$ 1,056,303	\$ 989,115
1,230,447	1,406,020	1,364,191	1,255,892	1,285,636
1,006,267	-	(4,712,771)	-	(4,654,782)
(1,807,234)	631,288	(1,510,881)	104,744	1,640,575
-	-	94,410	-	-
(1,517,538)	(1,686,226)	(1,541,205)	(1,703,038)	(1,388,812)
<u>118,071</u>	<u>1,689,434</u>	<u>(5,295,957)</u>	<u>713,901</u>	<u>(2,128,268)</u>
<u>23,205,458</u>	<u>23,323,529</u>	<u>25,012,963</u>	<u>19,717,006</u>	<u>20,430,907</u>
<u>\$ 23,323,529</u>	<u>\$ 25,012,963</u>	<u>\$ 19,717,006</u>	<u>\$ 20,430,907</u>	<u>\$ 18,302,639</u>
\$ 3,245,568	\$ 2,550,241	\$ 1,541,205	\$ 1,703,038	\$ 1,388,812
814,378	1,124,777	1,065,683	1,125,633	2,086,072
2,406,471	(3,813,040)	180,014	1,024,133	-
(1,517,538)	(1,686,226)	(1,541,205)	(1,703,038)	(1,388,812)
(5,616)	(6,432)	(5,932)	(6,199)	(6,779)
<u>4,943,263</u>	<u>(1,830,680)</u>	<u>1,239,765</u>	<u>2,143,567</u>	<u>2,079,293</u>
<u>13,803,015</u>	<u>18,746,278</u>	<u>16,915,598</u>	<u>18,155,363</u>	<u>20,298,930</u>
<u>\$ 18,746,278</u>	<u>\$ 16,915,598</u>	<u>\$ 18,155,363</u>	<u>\$ 20,298,930</u>	<u>\$ 22,378,223</u>
<u>\$ 4,577,251</u>	<u>\$ 8,097,365</u>	<u>\$ 1,561,643</u>	<u>\$ 131,977</u>	<u>\$ (4,075,584)</u>
80.37%	67.63%	92.08%	99.35%	122.27%
\$ 132,719,985	\$ 136,701,584	\$ 151,404,279	\$ 155,946,408	\$ 164,352,936
3.45%	5.92%	1.03%	0.08%	-2.48%

**Independent School District No. 535**  
**Schedule of Investment Returns**

	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>
Annual money-weighted rate of return, net of investment expense	2.70%	6.80%	7.40%	6.10%

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

<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>	<u>June 30, 2025</u>
23.30%	-14.30%	7.40%	11.80%	10.30%

**Independent School District No. 535**  
**Schedule of District's and Non-Employer Proportionate Share**  
**(if Applicable) of Net Pension Liability**  
**Last Ten Years General Employees Retirement Fund**

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.5029%	\$ 26,062,888	\$ -	\$ 26,062,888	\$ 29,547,716	88.2%	78.2%
2016	0.5038%	40,906,061	534,164	41,440,225	31,260,093	132.6%	68.9%
2017	0.5280%	33,707,172	423,813	34,130,985	34,012,880	100.3%	75.9%
2018	0.5106%	28,325,998	929,058	29,255,056	34,316,320	85.3%	79.5%
2019	0.4852%	26,825,621	833,630	27,659,251	34,335,373	80.6%	80.2%
2020	0.4952%	29,689,503	915,572	30,605,075	35,316,480	86.7%	79.1%
2021	0.4611%	19,691,036	601,221	20,292,257	33,193,107	61.1%	87.0%
2022	0.4699%	37,216,235	1,091,123	38,307,358	35,196,720	108.8%	76.7%
2023	0.5085%	28,434,750	783,821	29,218,571	40,439,013	72.3%	83.1%
2024	0.5128%	18,956,706	490,182	19,446,888	43,398,387	44.8%	89.1%

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

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	1.6713%	\$ 103,386,434	\$ 12,681,326	\$ 116,067,760	\$ 84,887,922	121.8%	76.8%
2016	1.7229%	410,952,758	41,248,190	452,200,948	89,619,667	458.6%	44.9%
2017	1.8189%	363,085,435	35,097,825	398,183,260	97,914,728	370.8%	51.6%
2018	1.8066%	113,470,061	10,660,761	124,130,822	99,811,600	113.7%	78.1%
2019	1.8340%	116,899,545	10,345,239	127,244,784	104,120,687	112.3%	78.2%
2020	1.8581%	137,278,918	11,504,289	148,783,207	107,980,619	127.1%	75.5%
2021	1.8595%	81,377,280	6,863,166	88,240,446	111,277,109	73.1%	86.6%
2022	1.9318%	154,688,325	11,471,544	166,159,869	119,410,624	129.5%	76.2%
2023	1.8891%	155,968,328	10,925,206	166,893,534	120,109,836	129.9%	76.4%
2024	1.9134%	121,580,715	7,951,880	129,532,595	126,762,411	95.9%	82.1%

**Independent School District No. 535  
Schedule of District Contributions  
General Employees Retirement Fund  
Last Ten Years**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2016	\$ 2,344,507	\$ 2,344,507	\$ -	\$ 31,260,093	7.50%
2017	2,550,966	2,550,966	-	34,012,880	7.50%
2018	2,573,724	2,573,724	-	34,316,320	7.50%
2019	2,575,153	2,575,153	-	34,335,373	7.50%
2020	2,648,736	2,648,736	-	35,316,480	7.50%
2021	2,489,483	2,489,483	-	33,193,107	7.50%
2022	2,639,754	2,639,754	-	35,196,720	7.50%
2023	3,032,926	3,032,926	-	40,439,013	7.50%
2024	3,254,879	3,254,879	-	43,398,387	7.50%
2025	3,438,868	3,438,868	-	45,851,573	7.50%

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2016	\$ 6,721,475	\$ 6,721,475	\$ -	\$ 89,619,667	7.50%
2017	7,343,605	7,343,605	-	97,914,733	7.50%
2018	7,485,870	7,485,870	-	99,811,600	7.50%
2019	8,027,705	8,027,705	-	104,120,687	7.71%
2020	8,552,065	8,552,065	-	107,980,619	7.92%
2021	9,046,829	9,046,829	-	111,277,109	8.13%
2022	9,958,846	9,958,846	-	119,410,624	8.34%
2023	10,269,391	10,269,391	-	120,109,836	8.55%
2024	11,091,711	11,091,711	-	126,762,411	8.75%
2025	11,386,174	11,386,174	-	130,127,703	8.75%

**Independent School District No. 535**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund**

**2024 Changes**

Changes in Actuarial Assumptions

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

Changes of Benefit Terms

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

**2023 Changes**

Changes in Actuarial Assumptions

- None

**2022 Changes**

Changes in Actuarial Assumptions

- None

**2021 Changes**

Changes in Actuarial Assumptions

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

**2020 Changes**

Changes in Actuarial Assumptions

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

**2019 Changes**

Changes in Actuarial Assumptions

- None

**2018 Changes**

Changes in Actuarial Assumptions

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

**Independent School District No. 535**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2018 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

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

**2017 Changes**

Changes in Actuarial Assumptions

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

**2016 Changes**

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.

**Independent School District No. 535**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2016 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

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

**2015 Changes**

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

**Independent School District No. 535**  
**Notes to the Required Supplementary Information**

**General Employees Fund**

**2024 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2023 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2022 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2021 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2020 Changes**

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.

**Independent School District No. 535**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2020 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

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

Changes in Plan Provisions

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

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2018 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.
- 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 4.0% to 3.0%, beginning July 1, 2018.

**Independent School District No. 535**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2018 Changes (Continued)**

Changes in Plan Provisions

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

**2017 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2015 Changes**

Changes in Actuarial Assumptions

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

**Independent School District No. 535**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2015 Changes (Continued)**

Changes in Plan Provisions

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

**Independent School District No. 535**  
**Notes to the Required Supplementary Information**

**Post Employment Health Care Plan**

**2025 Changes**

- The expected long-term investment return changed from 6.20% to 6.10%.
- The discount rate was changed from 6.20% to 6.10%.
- The health care trend rates were updated.
- The trend on future board contributions for Administrators, Cabinet Members, Operations Professional Employees, and Principals was changed from half of the medical trend rates to the full medical trend rates.
- The percentage of retirees electing spouse coverage decreased from 40% to 10% for those not eligible for a spouse subsidy.

**2024 Changes**

- The expected long-term investment return was changed from 6.30% to 6.20%.
- The discount rate was changed from 6.30% to 6.20%.

**2023 Changes**

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.
- The salary increase rates for non-teachers were updated to reflect the latest experience study.
- The withdrawal rates were updated to reflect the latest experience study.
- The percentage of retirees electing spousal coverage was decreased to 50% for those eligible for subsidy and 40% for those not eligible for subsidy.
- The expected long-term investment return was changed from 6.00% to 6.30%.
- The discount rate was changed from 5.40% to 6.30%.

**2022 Changes**

- The expected long-term investment return was changed from 5.90% to 6.00%.
- The discount rate was changed from 5.90% to 5.40%.

**2021 Changes**

- The expected long-term investment return was changed from 6.10% to 5.90%.
- The discount rate was changed from 5.20% to 5.90%.
- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.

**2020 Changes**

- The expected long-term investment return was changed from 6.20% to 6.10%.
- The discount rate was changed from 5.40% to 5.20%.

**Independent School District No. 535**  
**Notes to the Required Supplementary Information**

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

**2019 Changes**

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015. Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The expected long-term investment return was changed from 6.80% to 6.20%.
- The discount rate was changed from 6.10% to 5.40%.

**2018 Changes**

- The discount rate was changed from 4.90% to 6.10%.

**SUPPLEMENTARY INFORMATION**

**Independent School District No. 535**  
**Combining Statement of**  
**Net Position - Internal Service Funds**  
**June 30, 2025**

	Internal Service Funds		
	Health and Dental Care Trust	Workers Compensation	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 3,205,887	\$ 881,304	\$ 4,087,191
Investments	-	570,023	570,023
Accounts receivable	100,640	-	100,640
Interest receivable	-	4,615	4,615
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total current assets	<u>\$ 3,306,527</u>	<u>\$ 1,455,942</u>	<u>\$ 4,762,469</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 941,651	\$ 20,392	\$ 962,043
Claims payable	3,612,800	346,174	3,958,974
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total current liabilities	<u>\$ 4,554,451</u>	<u>\$ 366,566</u>	<u>\$ 4,921,017</u>
<b>Net Position</b>			
Restricted for			
Health and dental insurance trust	\$ (1,247,924)	\$ -	\$ (1,247,924)
Unrestricted	-	1,089,376	1,089,376
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total net position	<u>\$ (1,247,924)</u>	<u>\$ 1,089,376</u>	<u>\$ (158,548)</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and net position	<u>\$ 3,306,527</u>	<u>\$ 1,455,942</u>	<u>\$ 4,762,469</u>

Independent School District No. 535  
Combining Statement of Revenues, Expenses, and Changes  
in Fund Net Position - Internal Service Funds  
Year Ended June 30, 2025

	Internal Service Funds		
	Health and Dental Care Trust	Workers Compensation	Total
<b>Operating Revenues</b>			
Charges for services	\$ 40,058,065	\$ 1,357,585	\$ 41,415,650
<b>Operating Expenses</b>			
Employee benefits	42,106,862	902,685	43,009,547
Administrative expense	1,106,987	186,914	1,293,901
Purchased services	2,282	-	2,282
Supplies and materials	565	5,066	5,631
Other expenses	13,334	-	13,334
Total operating expenses	<u>43,230,030</u>	<u>1,094,665</u>	<u>44,324,695</u>
Operating income (loss)	(3,171,965)	262,920	(2,909,045)
<b>Nonoperating Revenues</b>			
Investment income	141,776	58,064	199,840
Other revenue	156,993	-	156,993
Total nonoperating revenues	<u>298,769</u>	<u>58,064</u>	<u>356,833</u>
Change in net position	(2,873,196)	320,984	(2,552,212)
<b>Net Position</b>			
Beginning of year	<u>1,625,272</u>	<u>768,392</u>	<u>2,393,664</u>
End of year	<u>\$ (1,247,924)</u>	<u>\$ 1,089,376</u>	<u>\$ (158,548)</u>

Independent School District No. 535  
Combining Statement of Cash Flows -  
Internal Service Funds  
As of June 30, 2025

	Internal Service Funds		
	Health and Dental Care Trust	Workers Compensation	Total
<b>Cash Flows - Operating Activities</b>			
Receipts from interfund services provided	\$ 40,054,773	\$ 1,357,585	\$ 41,412,358
Employee claims paid	(40,501,566)	(938,321)	(41,439,887)
Payments for administrative costs	(1,870,015)	(183,636)	(2,053,651)
Payments for services, supplies, and materials	(16,181)	(5,066)	(21,247)
Net cash flows - operating activities	<u>(2,332,989)</u>	<u>230,562</u>	<u>(2,102,427)</u>
<b>Cash Flows - Investment Activities</b>			
Proceeds from maturities of investment securities	2,827,517	-	2,827,517
Purchase of investment securities	(117,305)	-	(117,305)
Interest received	145,200	26,764	171,964
Net cash flows - investment activities	<u>2,855,412</u>	<u>26,764</u>	<u>2,882,176</u>
<b>Cash Flows - Noncapital and Related Financing Activities</b>			
Receipt of settlement	156,993	-	156,993
Net change in cash and cash equivalents	679,416	257,326	936,742
<b>Cash and Cash Equivalents</b>			
Beginning of year	<u>2,526,471</u>	<u>623,978</u>	<u>3,150,449</u>
End of year	<u>\$ 3,205,887</u>	<u>\$ 881,304</u>	<u>\$ 4,087,191</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities</b>			
Operating income (loss)	\$ (3,171,965)	\$ 262,920	\$ (2,909,045)
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Accounts receivable	(3,292)	-	(3,292)
Prepaid items	172,595	-	172,595
Salaries and benefits payable	(207)	-	(207)
Accounts payable	(762,821)	3,278	(759,543)
Claims payable	1,432,701	(35,636)	1,397,065
Net adjustments	<u>838,976</u>	<u>(32,358)</u>	<u>806,618</u>
Net cash flows - operating activities	<u>\$ (2,332,989)</u>	<u>\$ 230,562</u>	<u>\$ (2,102,427)</u>

Independent School District No. 535  
Uniform Financial Accounting and Reporting Standards  
Compliance Table  
Year Ended June 30, 2025

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total revenue	\$ 301,827,289	\$ 301,827,289	\$ -	Total revenue	\$ 1,182,410	\$ 1,182,411	\$ (1)
Total expenditures	292,641,884	292,641,884	-	Total expenditures	36,487,238	36,487,240	(2)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	2,029,366	2,029,366	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	447,230	447,230	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	46,351	46,351	-	4.09 Alternative Facility Program	-	-	-
4.03 Staff Development	257,515	257,515	-	4.13 Building Projects Funded by COP/LP	-	-	-
4.07 Capital Projects Levy	-	-	-	4.67 Long-term Facilities Maintenance	36,895,010	36,895,010	-
4.08 Cooperative Programs	-	-	-	<i>Restricted:</i>			
4.09 Alternative Facility Program	-	-	-	4.64 Restricted fund balance	1,942,447	1,942,447	-
4.12 Literacy Incentive Aid	1,159,877	1,159,877	-	<i>Unassigned:</i>			
4.14 Operating Debt	-	-	-	4.63 Unassigned fund balance	-	-	-
4.16 Levy Reduction	-	-	-				
4.17 Taconite Building Maintenance	-	-	-	<b>07 DEBT SERVICE FUND</b>			
4.20 American Indian Education Aid	-	-	-	Total revenue	\$ 25,499,107	\$ 25,499,107	\$ -
4.24 Operating Capital	943,191	943,192	(1)	Total expenditures	27,529,021	27,529,021	-
4.26 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
4.27 Disabled Accessibility	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.28 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
4.34 Area Learning Center	1,165,593	1,165,593	-	4.25 Bond refunding	-	-	-
4.35 Contracted Alternative Programs	-	-	-	4.33 Maximum effort loan aid	-	-	-
4.36 State Approved Alternative Learning Program	-	-	-	4.51 QZAB payments	-	-	-
4.37 Quality Compensation - Alternative Teacher Professional Pay System	-	-	-	4.67 LTFM	-	-	-
4.38 Gifted and Talented	-	-	-	<i>Restricted:</i>			
4.39 English Learner	-	-	-	4.64 Restricted fund balance	4,714,697	4,714,697	-
4.40 Teacher Development and Evaluation	-	-	-	<i>Unassigned:</i>			
4.41 Basic Skills Programs	59,764	59,764	-	4.63 Unassigned fund balance	-	-	-
4.43 School Library Aid	-	-	-				
4.45 Career Technical Programs	-	-	-	<b>08 TRUST FUND</b>			
4.48 Achievement and Integration Revenue	-	-	-	Total revenue	\$ 3,945,262	\$ 3,945,262	\$ -
4.49 Safe School Crime	145,814	145,814	-	Total expenditures	3,185,598	3,185,597	1
4.51 QZAB Payments	-	-	-	<i>Unassigned:</i>			
4.52 OPEB Liabilities not Held in Trust	-	-	-	4.01 Student Activities	-	-	-
4.53 Unfunded Severance and Retirement Levy	-	-	-	4.02 Scholarships	-	-	-
4.56 Read Act	383,100	383,100	-	4.22 Net position	11,922,541	11,922,542	(1)
4.57 Teacher Compensation for Read Act Training	91,072	91,072	-				
4.67 Long-term Facilities Maintenance	91,492	91,492	-	<b>18 CUSTODIAL FUND</b>			
4.71 Student Support Personnel	191,040	191,040	-	Total revenue	\$ 125,925	\$ 125,924	\$ 1
4.72 Medical Assistance	3,981,779	3,981,779	-	Total expenditures	125,925	125,924	1
4.75 Title VII - Impact Aid	-	-	-	<i>Unassigned:</i>			
4.76 Payments in Lieu of Taxes	-	-	-	4.01 Student Activities	-	-	-
<i>Restricted:</i>				4.02 Scholarships	1,500	1,500	-
4.64 Restricted fund balance	-	-	-	4.48 Achievement and Integration	-	-	-
4.75 Title VII - Impact Aid	-	-	-	4.64 Restricted	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-				
<i>Committed:</i>				<b>20 INTERNAL SERVICE FUND</b>			
4.18 Committed for separation	-	-	-	Total revenue	\$ 41,772,483	\$ 41,772,485	\$ (2)
4.61 Committed fund balance	6,000,000	6,000,000	-	Total expenditures	44,324,695	44,324,697	(2)
<i>Assigned:</i>				<i>Unassigned:</i>			
4.62 Assigned fund balance	19,487,447	19,487,448	(1)	4.22 Net position	(158,548)	(158,549)	1
<i>Unassigned:</i>							
4.22 Unassigned fund balance	50,229,704	50,229,702	2	<b>25 OPEB REVOCABLE TRUST</b>			
				Total revenue	\$ -	\$ -	\$ -
<b>02 FOOD SERVICES FUND</b>				Total expenditures	-	-	-
Total revenue	\$ 12,977,525	\$ 12,977,524	\$ 1	<i>Unassigned:</i>			
Total expenditures	12,537,511	12,537,510	1	4.22 Net position	-	-	-
<i>Nonspendable:</i>							
4.60 Nonspendable fund balance	121,933	121,933	-	<b>45 OPEB IRREVOCABLE TRUST</b>			
<i>Restricted/reserved:</i>				Total revenue	\$ 2,086,072	\$ 2,086,072	\$ -
4.52 OPEB liabilities not held in trust	-	-	-	Total expenditures	6,780	6,779	1
<i>Restricted:</i>				<i>Unassigned:</i>			
4.64 Restricted fund balance	8,998,500	8,998,499	1	4.22 Net position	22,378,222	22,378,223	(1)
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-	<b>47 OPEB DEBT SERVICE</b>			
				Total revenue	\$ -	\$ -	\$ -
<b>04 COMMUNITY SERVICE FUND</b>				Total expenditures	-	-	-
Total revenue	\$ 18,170,542	\$ 18,170,541	\$ 1	<i>Nonspendable:</i>			
Total expenditures	18,903,956	18,903,960	(4)	4.60 Nonspendable fund balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
4.60 Nonspendable fund balance	35,285	35,285	-	4.25 Bond refundings	-	-	-
<i>Restricted/reserved:</i>				4.64 Restricted fund balance	-	-	-
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	2,791,535	2,791,533	2	4.63 Unassigned fund balance	-	-	-
4.32 ECFE	213,833	213,833	-				
4.40 Teacher Development and Evaluation	-	-	-				
4.44 School Readiness	75,346	75,346	-				
4.47 Adult Basic Education	211,297	211,297	-				
4.52 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
4.64 Restricted fund balance	-	-	-				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				

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

**Independent Auditor's Report**

To the School Board  
Independent School District No. 535  
Rochester, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 535, Rochester, Minnesota, as of and for the year ending June 30, 2025, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 27, 2025.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 may exist that have not been identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's basic 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 basic 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 result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bergank DV, Ltd.

St. Cloud, Minnesota  
October 27, 2025



## Minnesota Legal Compliance

### Independent Auditor's Report

To the School Board  
Independent School District No. 535  
Rochester, 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. 535, Rochester, Minnesota, as of and for the year ended June 30, 2025, and the related notes to basic financial statements, and have issued our report thereon dated October 27, 2025.

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

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

*BerganKDV, Ltd.*

St. Cloud, Minnesota  
October 27, 2025

**FORM OF LEGAL OPINION**

(See following pages)

## Form of Bond Counsel Opinion

Independent School District No. 535  
Rochester, Minnesota

[Purchaser]  
[City, State]

Re:     \$[PAR] General Obligation Facilities Maintenance Bonds, Series 2026A  
       Independent School District No. 535 (Rochester Public Schools)  
       Olmsted and Wabasha Counties, Minnesota

Ladies and Gentlemen:

As Bond Counsel in connection with the authorization, issuance and sale by Independent School District No. 535 (Rochester Public Schools), Olmsted and Wabasha Counties, Minnesota, of the obligations described above, dated, as originally issued, as of June [ ], 2026 (the Bonds), we have examined certified copies of certain proceedings taken, and certain affidavits and certificates furnished, by the District in the authorization, sale and issuance of the Bonds, including the form of the Bonds. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1.     The Bonds are valid and binding general obligations of the District, enforceable in accordance with their terms.

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

3.     The resolution authorizing the issuance of the Bonds obligates the District to be bound by the provisions of Minnesota Statutes, Section 126C.55. We express no opinion as to the enforceability of the provisions of such law against the State of Minnesota in the absence of legally appropriated and available funds to pay the obligations of the State thereunder.

4.     Interest on the Bonds (a) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the Code) and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed by Section 55 of the Code.

5.     Interest on the Bonds (a) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes and (b) is not an item of tax preference for purposes of the Minnesota alternative minimum tax imposed on individuals, estates, and trusts.

The opinions expressed in paragraphs 1, 2, and 3 above are subject, as to enforceability, to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the application of equitable principles, whether considered at law or in equity.

The opinions expressed in paragraphs 4 and 5 above are subject to the compliance by the District with certain requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. Noncompliance with these requirements could result in the inclusion of interest on the Bonds in gross income for federal income tax purposes and taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, retroactive to the date of issuance of the Bonds.

Except as stated herein, we express no opinion regarding federal, state, or other tax consequences to the owner of the Bonds. We note, however, that interest on the Bonds may be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code) and is included in net income of corporations and financial institutions for purposes of the Minnesota franchise tax.

In providing this opinion, we have relied upon representations of the District and its officers as to (i) the intended application of the proceeds of the Bonds, (ii) the nature, use, cost, and economic life of the facilities and equipment financed by the Bonds, and (iii) other matters relating to the exemption of the interest on the Bonds from federal income taxation.

This opinion is given as of the date hereof, and we assume no obligation to 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 occur after the date hereof and which may be retroactive.

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

Dated this [ ]<sup>th</sup> day of June, 2026.

Very truly yours,

**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](http://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 COVENANTS  
(EXCERPTS FROM AWARD RESOLUTION)**

(See following pages)

## Form of Continuing Disclosure Covenants

### *Excerpt from Resolution*

Continuing Disclosure. (a) Purpose and Beneficiaries. To provide for the public availability of certain information relating to the Bonds and the security therefor and to permit the Purchaser and other participating underwriters in the primary offering of the Bonds to comply with amendments to Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), relating to continuing disclosure (as in effect and interpreted from time to time, the Rule), which will enhance the marketability of the Bonds, the District hereby makes the following covenants and agreements for the benefit of the Owners (as hereinafter defined) from time to time of the outstanding Bonds. The District is the only obligated person in respect of the Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. If the District fails to comply with any provisions of this section, any person aggrieved thereby, including the Owners of any outstanding Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this section, including an action for a writ of mandamus or specific performance. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder to the extent permitted by law. Notwithstanding anything to the contrary contained herein, in no event shall a default under this section constitute a default under the Bonds or under any other provision of this resolution. As used in this section, Owner or Bondowner means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, Beneficial Owner means, in respect of a Bond, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Bond for federal income tax purposes.

(b) Information To Be Disclosed. The District will provide, in the manner set forth in subsection (c) hereof, either directly or indirectly through an agent designated by the District, the following information at the following times:

- (1) on or before twelve (12) months after the end of each fiscal year of the District, commencing with the fiscal year ending June 30, 2026, the following financial information and operating data in respect of the District (the Disclosure Information):
  - (A) the audited financial statements of the District for such fiscal year, prepared in accordance with generally accepted accounting principles in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of

the District, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the fiscal officer of the District; and

- (B) to the extent not included in the financial statements referred to in paragraph (A) hereof, the information for such fiscal year or for the period most recently available of the type contained in the Official Statement under the headings: “VALUATIONS – Current Property Valuations;” “DEBT – Direct Debt;” “TAX LEVIES, COLLECTION AND RATES – Tax Levies and Collections;” “THE ISSUER – Student Body;” and “GENERAL INFORMATION – Employment/Unemployment Data;” which information may be unaudited.

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the District shall provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the District shall provide the audited financial statements. Any or all of the Disclosure Information may be incorporated by reference, if it is updated as required hereby, from other documents, including official statements, which have been submitted to the Municipal Securities Rulemaking Board (the MSRB) through its Electronic Municipal Market Access System (EMMA) or the SEC. The District shall clearly identify in the Disclosure Information each document so incorporated by reference. If any part of the Disclosure Information can no longer be generated because the operations of the District have materially changed or been discontinued, such Disclosure Information need no longer be provided if the District includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other District operations in respect of which data is not included in the Disclosure Information and the District determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations. If the Disclosure Information is changed or this section is amended as permitted by this paragraph (b)(1) or subsection (d), then the District shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

- (2) In a timely manner, not in excess of 10 business days, to the MSRB through EMMA, notice of the occurrence of any of the following events (each a “Material Fact,” as hereinafter defined):
  - (A) principal and interest payment delinquencies;
  - (B) non-payment related defaults, if material;
  - (C) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (D) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (E) substitution of credit or liquidity providers, or their failure to perform;
  - (F) 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 Bonds or other material events affecting the tax status of the Bonds;
- (G) modifications to rights of Bond holders, if material;
  - (H) Bond calls, if material and tender offers;
  - (I) defeasances;
  - (J) release, substitution, or sale of property securing repayment of the Bonds if material;
  - (K) rating changes;
  - (L) bankruptcy, insolvency, receivership, or similar event of the obligated person;
  - (M) 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;
  - (N) appointment of a successor or additional trustee or the change of name of a trustee, if material;
  - (O) 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; “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 debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule; and
  - (P) 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.

As used herein, for those events that must be reported if material, a “Material Fact” is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a Material Fact is also a fact that would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

For the purposes of the event identified in (L) hereinabove, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over

substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

For purposes of the events identified in paragraphs (O) and (P) above, the term “financial obligation” means (i) a debt obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). 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.

- (3) In a timely manner, to the MSRB through EMMA, notice of the occurrence of any of the following events or conditions:
  - (A) the failure of the District to provide the Disclosure Information required under paragraph (b)(1) at the time specified thereunder;
  - (B) the amendment or supplementing of this section pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the District under subsection (d)(2);
  - (C) the termination of the obligations of the District under this section pursuant to subsection (d);
  - (D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and
  - (E) any change in the fiscal year of the District.

(c) Manner of Disclosure.

- (1) The District agrees to make available to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, the information described in subsection (b).
- (2) All documents provided to the MSRB pursuant to this subsection (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(d) Term; Amendments; Interpretation.

- (1) The covenants of the District in this section shall remain in effect so long as any Bonds are outstanding. Notwithstanding the preceding sentence, however, the obligations of the District under this section shall terminate and be without further effect as of any date on which the District delivers to the Registrar an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the District to comply with the

requirements of this section will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successive thereto or amendatory thereof.

- (2) This section (and the form and requirements of the Disclosure Information) may be amended or supplemented by the District from time to time, without notice to (except as provided in paragraph (c)(2) hereof) or the consent of the Owners of any Bonds, by a resolution of this Board filed in the office of the recording officer of the District accompanied by an opinion of Bond Counsel, who may rely on certificates of the District and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the District or the type of operations conducted by the District, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this section as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule.

If the Disclosure Information is so amended, the District agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

- (3) This section is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

**TERMS OF PROPOSAL**

**\$33,800,000\* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2026A  
INDEPENDENT SCHOOL DISTRICT NO. 535 (ROCHESTER PUBLIC SCHOOLS), MINNESOTA**

Proposals for the purchase of \$33,800,000\* General Obligation Facilities Maintenance Bonds, Series 2026A (the "Bonds") of Independent School District No. 535 (Rochester Public Schools), 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 June 2, 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 5:30 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 Minnesota Statutes, Section 123B.595, as amended, by the District, to provide funds for health and safety and deferred capital maintenance projects included in the District's ten-year facility plan approved by the Commissioner of Education. 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 June 25, 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>
2028	\$455,000	2033	\$720,000	2038	\$920,000
2029	480,000	2034	755,000	2039	955,000
2030	490,000	2035	800,000	2040	2,810,000
2031	635,000	2036	830,000	2041	11,430,000
2032	680,000	2037	875,000	2042	10,965,000

**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 2028 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

The Bonds maturing on and after February 1, 2035 are be subject to redemption and prepayment at the option of the District, in whole or in part, in such order as the District shall determine and within a maturity by lot as selected by the Registrar in multiples of \$5,000, on February 1, 2034, and on any date thereafter, at a price equal to the principal amount thereof and accrued interest to the date of redemption.

The District is required to cause notice of the call for redemption thereof to be published as required by law and, at least thirty (30) days prior to the designated redemption date, cause notice of the call for redemption to be mailed, by first class mail, to the registered owners of any Bonds to be redeemed at their addresses as they appear on the bond register, but no defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of any Bond not affected by such defect or failure.

Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the District shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon partial redemption of any Bond, a new Bond or Bonds will be delivered to the registered owner without charge, representing the remaining principal amount outstanding.

## DELIVERY

On or about June 25, 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 in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP ("Bond Counsel"), Minneapolis, Minnesota, bond counsel to the District.

## SUBMISSION OF PROPOSALS

Proposals must not be for less than \$33,800,000 plus accrued interest on the principal sum of \$33,800,000 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](mailto: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 \$676,000 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 are not "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, in the resolution awarding the Bonds, the District will agree to provide certain information and notices of the occurrences of certain events to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) System. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

## **ESTABLISHMENT OF ISSUE PRICE AT TIME OF AWARD**

In order to establish the issue price of the Bonds for federal income tax purposes, the District requires bidders to agree to the following, and by submitting a proposal, each bidder agrees to the following.

If a proposal is submitted by a potential underwriter, the bidder confirms that (i) the underwriters have offered or reasonably expect to offer the Bonds to the public on or before the date of the award at the offering price (the "initial offering price") for each maturity as set forth in the proposal and (ii) the bidder, if it is the winning bidder, shall require any agreement among underwriters, selling group agreement, retail distribution agreement or other agreement relating to the initial sale of the Bonds to the public to which it is a party to include provisions requiring compliance by all parties to such agreements with the provisions contained herein. For purposes hereof, Bonds with a separate CUSIP number constitute a separate "maturity", and the public does not include underwriters (including members of a selling group or retail distribution group) or persons related to underwriters.

If, however, a proposal is submitted for the bidder's own account in a capacity other than as an underwriter of the Bonds, and the bidder has no current intention to sell, reoffer, or otherwise dispose of the Bonds, the bidder shall notify the District to that effect at the time it submits its proposal and shall provide a certificate to that effect in place of the certificate otherwise required below.

If the winning bidder intends to act as an underwriter, the District shall advise the winning bidder at or prior to the time of award whether (i) the competitive sale rule or (ii) the "hold-the-offering price" rule applies.

If the District advises the Purchaser that the requirements for a competitive sale have been satisfied and that the competitive sale rule applies, the Purchaser will be required to deliver to the District at or prior to closing a certification, in a form reasonably acceptable to bond counsel, as to the reasonably expected initial offering price as of the award date.

If the District advises the Purchaser that the requirements for a competitive sale have not been satisfied and that the hold-the-offering price rule applies, the Purchaser shall (1) upon the request of the District confirm that the underwriters did not offer or sell any maturity of the Bonds to any person at a price higher than the initial offering price of that maturity during the period starting on the award date and ending on the earlier of (a) the close of the fifth business day after the sale date or (b) the date on which the underwriters have sold at least 10% of that maturity to the public at or below the initial offering price; and (2) at or prior to closing, deliver to the District a certification as to such matters, in a form reasonably acceptable to bond counsel, together with a copy of the pricing wire.

Any action taken or documentation to be received by the District pursuant hereto may be taken or received on behalf of the District by Ehlers & Associates, Inc.

**Bidders should prepare their proposals on the assumption that the Bonds will be subject to the "hold-the-offering-price" rule. Any proposal submitted pursuant to the Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, and Bonds submitted will not be subject to cancellation or withdrawal.**

#### **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](http://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. 535  
(Rochester Public Schools), Minnesota

# PROPOSAL FORM

The School Board  
Independent School District No. 535 (Rochester Public Schools), Minnesota (the "District")

June 2, 2026

RE: \$33,800,000\* General Obligation Facilities Maintenance Bonds, Series 2026A (the "Bonds")  
DATED: June 25, 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 \$33,800,000) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due	2028	_____ % due	2033	_____ % due	2038
_____ % due	2029	_____ % due	2034	_____ % due	2039
_____ % due	2030	_____ % due	2035	_____ % due	2040
_____ % due	2031	_____ % due	2036	_____ % due	2041
_____ % due	2032	_____ % due	2037	_____ % due	2042

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 2028 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 \$676,000 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 June 25, 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 June 25, 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. 535 (Rochester Public Schools), Minnesota, on June 2, 2026.

By: \_\_\_\_\_ By: \_\_\_\_\_  
Title: \_\_\_\_\_ Title: \_\_\_\_\_