PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 29, 2024

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 2 (HILL CITY), MINNESOTA

(Aitkin County)

(Minnesota School District Credit Enhancement Program)

$3,790,000* GENERAL OBLIGATION FACILITIES MAINTENANCE AND CAPITAL FACILITIES BONDS, SERIES 2024A

PROPOSAL OPENING: March 13, 2024, 9:30 A.M., C.T. **CONSIDERATION**: March 13, 2024, 6:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $3,790,000* General Obligation Facilities Maintenance and Capital Facilities Bonds, Series 2024A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, Minnesota Statutes, Section 123B.595, as amended, and Minnesota Statues, Section 123B.62, as amended, by Independent School District No. 2 (Hill City), Minnesota (the "District"), to provide funds for health and safety and deferred maintenance projects included in the District's ten year facilities plan approved by the Commissioner of Education and capital improvements to district facilities approved be 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 Kennedy & Graven, Chartered, Minneapolis, Minnesota.

DATE OF BONDS: April 4, 2024

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2025	$130,000	2030	$200,000	2035	$255,000
2026	115,000	2031	205,000	2036	265,000
2027	130,000	2032	220,000	2037	275,000
2028	185,000	2033	230,000	2038	570,000
2029	185,000	2034	235,000	2039	590,000

***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, 2025 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2033 and thereafter are subject to call for prior optional redemption on February 1, 2032 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

MINIMUM PROPOSAL: $3,790,000.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of $75,800 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation.

BOND COUNSEL: Kennedy & Graven, Chartered.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

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

REPRESENTATIONS

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

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

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

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

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

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

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

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

CLOSING CERTIFICATES

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

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HILL CITY
SCHOOL BOARD

		Term Expires
Jay Zapzalka	Board Chair	January 2025
Mark Meyer	Vice Chair	January 2025
Joell Miranda	Clerk	January 2027
Sarah Kingsley	Treasurer	January 2027
Jeremy Nelson	Member	January 2027
Ron Saxton	Member	January 2025

ADMINISTRATION

Adam Johnson, Superintendent of Schools/Business Manager

PROFESSIONAL SERVICES

Colosimo, Patchin & Kearney, LTD, District Attorney, Virginia, Minnesota

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

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

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 2 (Hill City), Minnesota (the "District") and the issuance of its $3,790,000* General Obligation Facilities Maintenance and Capital Facilities Bonds, Series 2024A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the School Board on March 13, 2024.

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

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of $5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of April 4, 2024. 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, 2025, 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 2025 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, Roseville, Minnesota ("BTSC") to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2033 shall be subject to optional redemption prior to maturity on February 1, 2032 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

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

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

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, Minnesota Statutes, Section 123B.595, as amended, and Minnesota Statues, Section 123B.62, as amended, by the District, for health and safety projects (the "Health and Safety Portion"), deferred maintenance projects (the "Deferred Maintenance Portion") included in the District's ten year facilities plan approved by the Commissioner of Education and capital improvements to district facilities approved by the Commissioner of Education (the "Capital Facilities Portion").

ESTIMATED SOURCES AND USES*

Sources	**Health and Safety Portion**	**Deferred Maintenance Portion**	**Capital Facilities Portion**	**Total Bond Issue**
Par Amount of Bonds	$3,045,000	$445,000	$300,000	$3,790,000
Reoffering Premium	191,549	30,830	21,215	243,594
Total Sources	**$3,236,549**	**$475,830**	**$321,215**	**$4,033,594**
Uses				
Total Underwriter's Discount (1.500%)	$45,675	$6,675	$4,500	$56,850
Costs of Issuance	53,042	7,752	5,226	66,019
Deposit to Construction Fund	3,137,832	461,404	311,489	3,910,725
Total Uses	**$3,236,549**	**$475,831**	**$321,215**	**$4,033,594**

*Preliminary, subject to change.

Breakdown of Principal Payments*:

Payment Date	Health and Safety Portion	Deferred Maintenance Portion	Capital Facilities Portion	Total Bond Issue
2/01/2025	$90,000	$25,000	$15,000	$130,000
2/01/2026	80,000	20,000	15,000	115,000
2/01/2027	90,000	25,000	15,000	130,000
2/01/2028	145,000	25,000	15,000	185,000
2/01/2029	145,000	25,000	15,000	185,000
2/01/2030	155,000	25,000	20,000	200,000
2/01/2031	160,000	25,000	20,000	205,000
2/01/2032	170,000	30,000	20,000	220,000
2/01/2033	180,000	30,000	20,000	230,000
2/01/2034	185,000	30,000	20,000	235,000
2/01/2035	195,000	35,000	25,000	255,000
2/01/2036	205,000	35,000	25,000	265,000
2/01/2037	215,000	35,000	25,000	275,000
2/01/2038	505,000	40,000	25,000	570,000
2/01/2039	525,000	40,000	25,000	590,000
Total	**$3,045,000**	**$445,000**	**$300,000**	**$3,790,000**

*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.

For Capital Facilities Bonds issued pursuant to Minnesota Statutes, Section 123B.62, the District is required to make an annual debt service levy equal to 105% of the debt service requirements on the Bonds. There will be an offsetting reduction each year in the District's general fund tax levy.

RATING

The District will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a credit enhanced rating from Moody's Investors Service, Inc. ("Moody's"). Moody's has a policy which assigns a minimum rating of "Aa1" to issuers participating in the MNCEP. The "Aa1" rating is based on the State of Minnesota's current "Aaa" rating from Moody's. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS" for further details.

The District currently has an "A2" underlying rating from Moody's and will be requesting an underlying rating on this issue. Such rating, if any, 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 July 24, 2023 (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 August 1, 2023, for General Obligation State Bonds, Series 2023A, 2023B, 2023C, 2023D and 2023E, the State of Minnesota disclosed the following information about the State Credit Enhancement Program for School Districts:

> "As of June 30, 2023, 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 2050, is approximately $17,500,000,000. 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, 2023, is currently estimated at $2,700,000,000, with the maximum amount of principal and interest payable in any one month being $1,060,000,000. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.
>
> The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts."

CONTINUING DISCLOSURE

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

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

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

The District did not timely file the July 29, 2022 Minnesota School District Credit Enhancement Rating upgrade. The District also did not timely file the June 30, 2021 audit that was to be filed by June 30, 2022. Prior continuing disclosure undertakings entered into by the District included language stating that an Annual Report including the District's audited financial statements and operating data would be filed "when available." Although the District did not provide financial statements "when available", the Annual Reports were timely filed within the required twelve (12) month timeframe as provided for in each undertaking. Other than what is described in this paragraph, the District believes it has complied in all material respects with its prior disclosure undertakings under the Rule in the last five years. The District has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the District.

LEGAL OPINION

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

TAX EXEMPTION

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

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

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

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

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

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

Legislative proposals

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

MUNICIPAL ADVISOR

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

MUNICIPAL ADVISOR AFFILIATED COMPANIES

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

INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 2023, 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 will be 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 may affect the overall financial condition of the District, the taxable value of property within the District, and the ability of the District to levy and collect property taxes.

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

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

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

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

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

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

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

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

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

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

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

The District's finance vendor, Arrowhead Regional Computing Consortium ("ARCC") recently suffered a network interruption in 2023 that impacted their systems. This interruption required ARCC to shut down parts of their network as they worked to remediate this issue. While there is no indication that any sensitive information has been accessed or misused, the District, in coordination with ARCC provided resources and recommended District staff take certain measures to protect the integrity of their personal credit files.

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	2020/21	2021/22	2022/23
Residential homestead[1]	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead[1]	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,880,000 - 0.50% [2] Over \$1,880,000 - 1.00% [2]	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% [2] Over \$1,900,000 - 1.00% [2]	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,890,000 - 0.50% [2] Over \$1,890,000 - 1.00% [2]
Agricultural non-homestead	Land - 1.00% [2]	Land - 1.00% [2]	Land - 1.00% [2]
Seasonal recreational residential	First \$500,000 - 1.00% [3] Over \$500,000 - 1.25% [3]	First \$500,000 - 1.00% [3] Over \$500,000 - 1.25% [3]	First \$500,000 - 1.00% [3] Over \$500,000 - 1.25% [3]
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City[4] - 1.25% Affordable Rental: First \$174,000 - .75% Over \$174,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%
Industrial/Commercial/Utility[5]	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

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

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

3 Exempt from referendum market value tax.

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

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

CURRENT PROPERTY VALUATIONS

2022/23 Economic Market Value	$332,001,543[1]
2022/23 Assessor's Estimated Market Value	
Real Estate	$213,621,700
Personal Property	92,487,800
Total Valuation	$306,109,500
2022/23 Net Tax Capacity	
Real Estate	$1,975,065
Personal Property	1,849,012
Net Tax Capacity	$3,824,077
Less: Power Line Adjustment[2]	(384)
Taxable Net Tax Capacity	$3,823,693

2022/23 NET TAX CAPACITY BY CLASSIFICATION

	2022/23 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$652,574	17.06%
Agricultural	545,472	14.26%
Commercial/industrial	106,529	2.79%
Non-homestead residential	242,997	6.35%
Commercial & residential seasonal/rec.	427,493	11.18%
Personal property	1,849,012	48.35%
Total	$3,824,077	100.00%

1 According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the District is about 95.12% of the actual selling prices of property most recently 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 $332,001,543.

2 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.

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Taxable Net Tax Capacity[2]	Percent Increase/Decrease in Estimated Market Value
2018/19	$154,129,500	$140,604,403	$1,393,579	$1,393,184	6.18%
2019/20	161,220,200	147,631,391	1,461,733	1,461,358	4.60%
2020/21	168,257,300	154,314,029	1,533,395	1,533,025	4.36%
2021/22	159,959,620	146,703,967	1,466,856	1,466,494	-4.93%
2022/23	306,109,500	291,297,934	3,824,077	3,823,693	91.37%

LARGEST TAXPAYERS

Taxpayer	Type of Property	2022/23 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Enbridge Energy LP	Utility	$1,827,644	47.79%
Blandin Paper Co.	Timber	20,565	0.54%
Minnesota Power & Light	Utility	17,084	0.45%
Lake Country Power	Utility	14,396	0.38%
Individual	Timber/Commercial	13,575	0.36%
Individual	Timber	12,704	0.33%
Individual	Timber	11,848	0.31%
Individual	Timber	10,431	0.27%
Individual	Resort/Commercial	9,635	0.25%
Great River Energy	Utility	8,964	0.23%
Total		$1,946,846	50.91%

District's Total 2022/23 Net Tax Capacity $3,824,077

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

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1 Net Tax Capacity includes power line values.

2 Taxable Net Tax Capacity does not include power line values.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedule following)

Total G.O. debt secured by taxes and state aids[2] (includes the Bonds)*	$6,870,000

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

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

FUTURE FINANCING

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

STATE AID FOR DEBT SERVICE

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

Under the Debt Service Equalization Formula (the Formula) adopted by the 2001 Minnesota State Legislature, each school district is responsible for the amount of its qualifying annual debt service which is equal to 15.74% of its Adjusted Net Tax Capacity (ANTC). 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.

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

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

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). For taxes payable in 2023, and thereafter, the reimbursement percentage for each qualifying property is 70% of the property's eligible net tax capacity multiplied by the school debt tax rate determined under Minnesota Statutes, Section 275.08, subdivision 1b. The school building bond agricultural credit applies to farmland, excluding the house, garage and one acre, and to rural vacant land and managed forest land. The amount of agricultural credit received in the debt service fund for taxes payable 2023 is approximately 8.03% of total annual debt service levies, based on the District's 2022/23 qualifying agricultural land valuation.

BONDED DEBT LIMIT (includes the Bonds)*

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:

2022/23 Economic Market Value	$332,001,543
Multiply by 15%	0.15
Statutory Debt Limit	$49,800,231
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(6,870,000)
Unused Debt Limit*	$42,930,231

*Preliminary, subject to change.

Independent School District No. 2 (Hill City), Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 04/04/2024)

	School Building Bonds Series 2017A		Fac. Maint. and Cap. Fac. Bonds Series 2024A							
Dated	07/11/2017		04/04/2024							
Amount	$4,000,000		$3,790,000*							
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**
2025	225,000	93,574	130,000	142,313	355,000	235,886	590,886	6,515,000	5.17%	**2025**
2026	235,000	86,824	115,000	166,000	350,000	252,824	602,824	6,165,000	10.26%	**2026**
2027	240,000	79,774	130,000	160,250	370,000	240,024	610,024	5,795,000	15.65%	**2027**
2028	200,000	72,574	185,000	153,750	385,000	226,324	611,324	5,410,000	21.25%	**2028**
2029	215,000	66,574	185,000	144,500	400,000	211,074	611,074	5,010,000	27.07%	**2029**
2030	220,000	60,124	200,000	135,250	420,000	195,374	615,374	4,590,000	33.19%	**2030**
2031	230,000	53,524	205,000	125,250	435,000	178,774	613,774	4,155,000	39.52%	**2031**
2032	235,000	46,624	220,000	115,000	455,000	161,624	616,624	3,700,000	46.14%	**2032**
2033	240,000	39,574	230,000	104,000	470,000	143,574	613,574	3,230,000	52.98%	**2033**
2034	250,000	32,374	235,000	92,500	485,000	124,874	609,874	2,745,000	60.04%	**2034**
2035	255,000	24,624	255,000	80,750	510,000	105,374	615,374	2,235,000	67.47%	**2035**
2036	265,000	16,719	265,000	68,000	530,000	84,719	614,719	1,705,000	75.18%	**2036**
2037	270,000	8,438	275,000	57,400	545,000	65,838	610,838	1,160,000	83.11%	**2037**
2038			570,000	46,400	570,000	46,400	616,400	590,000	91.41%	**2038**
2039			590,000	23,600	590,000	23,600	613,600	0	100.00%	**2039**
	3,080,000	681,318	3,790,000	1,614,963	6,870,000	2,296,280	9,166,280			

* Preliminary, subject to change.

OVERLAPPING DEBT[1]

Taxing District	2022/23 Taxable Net Tax Capacity	% In District	Total G.O. Debt[2]	District's Proportionate Share
Aitkin County	$48,114,133	7.9307%	$8,410,000	$666,972
District's Share of Total Overlapping Debt				$666,972

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value $332,001,543	Debt/ Per Capita 1,572[3]
Total G.O. Debt Secured By Taxes and State Aids*	$6,870,000		
Less: State Equalization Aid/Agricultural Credit[4]	(551,661)		
Tax Supported General Obligation Debt*	$6,318,339	1.90%	$4,019.30
District's Share of Total Overlapping Debt	$666,972	0.20%	$424.28
Total*	$6,985,311	2.10%	$4,443.58

*Preliminary, subject to change.

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

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

3 Estimated 2022 population.

4 Based on current State law and statistics, the State of Minnesota is estimated to pay approximately 8.03% of the principal and interest of the District's general obligation bonds. Assuming this percentage continues for the life of the issue, the State's proportionate share of principal is $551,661.

TAX LEVIES, COLLECTION AND RATES

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date	% Collected
2018/19	$493,661	$469,898	$493,381	99.94%
2019/20	465,087	445,165	463,471	99.65%
2020/21	478,753	457,961	475,185	99.25%
2021/22	493,861	470,290	484,611	98.13%
2022/23	560,681	In process of collection		

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

TAX CAPACITY RATES[3]

	2018/19	2019/20	2020/21	2021/22	2022/23
I.S.D. No. 2 (Hill City)	30.557%	27.736%	28.042%	28.364%	10.912%
Aitkin County	50.965%	49.771%	47.875%	47.424%	34.834%
Hill City	101.484%	86.276%	83.688%	68.638%	58.958%
Regional Development Community	0.172%	0.170%	0.172%	0.172%	0.123%
Town of Ball Bluff[4]	31.050%	32.909%	29.837%	34.965%	26.319%
Referendum Market Value Rates:					
I.S.D. No. 2 (Hill City)	0.15935%	0.15539%	0.13673%	0.15695%	0.08614%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Aitkin County.

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

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

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

4 Representative town rate.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 50, including 23 non-licensed employees and 27 licensed employees (25 of whom are teachers). The District provides education for 223 students in grades kindergarten through twelve.

PENSIONS; UNIONS

Teachers' Retirement Association (TRA)

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

Public Employees' Retirement Association (PERA)

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

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
Hill City United Educators	June 30, 2025
AFSCME	June 30, 2025

POST EMPLOYMENT BENEFITS

The District has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 75 (GASB 75). The District's most recent Audited Financial Statements (Audit) shows a total OPEB liability of $98,985 as of June 30, 2023. The District has been funding these obligations on a pay-as-you-go basis.

Source: The District's most recent Audit.

STUDENT BODY

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2019/20	23	102	124	249
2020/21	18	92	118	228
2021/22	18	95	123	236
2022/23	17	98	111	226
2023/24	20	99	104	223

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2024/25	16	108	98	222
2025/26	15	101	101	217
2026/27	15	101	104	220

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Hill City Elementary & Secondary	1983	1998

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 January 30, 2024)

Fund	**Total Cash and Investments**
General	$1,446,541
Food Service	157,447
Community Service	220,219
Debt Service	2,859
Building/Construction	189,023
Total Funds on Hand	$2,016,089

SUMMARY GENERAL FUND INFORMATION

The following are summaries of the revenues and 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 2023 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING JUNE 30				
	2020 Audited	2021 Audited	2022 Audited	2023 Audited	2023-24 Adopted Budget[1]
Revenues					
Local property taxes	$276,174	$290,126	$369,415	$308,840	$368,042
Other local and county revenues	317,096	291,569	309,001	291,139	178,326
Revenue from state sources	3,470,440	3,283,597	3,239,600	3,115,721	3,487,886
Revenue from federal sources	169,390	301,560	500,164	536,685	466,186
Sales and other conversion of assets	1,033	3,332	4,600	4,351	3,030
Total Revenues	$4,234,133	$4,170,184	$4,422,780	$4,256,736	$4,503,470
Expenditures					
Current:					
Administration	$430,131	$375,956	$463,398	$419,222	$423,593
District support services	221,091	218,182	235,287	117,692	140,208
Elementary and secondary regular instruction	1,824,282	1,837,425	1,961,619	1,913,066	1,979,210
Vocational education instruction	57,078	47,736	67,969	68,539	67,088
Special education instruction	593,141	529,626	525,855	529,940	538,629
Instructional support services	68,171	159,026	135,473	109,867	90,575
Pupil support services	379,086	408,754	346,940	342,778	332,175
Sites and buildings	462,205	488,921	514,325	575,971	602,078
Fiscal and other fixed cost programs	29,236	32,336	35,950	40,655	50,000
Capital outlay	216,788	145,996	99,555	311,969	91,366
Total Expenditures	$4,281,209	$4,243,958	$4,386,371	$4,429,699	$4,314,922
Excess of revenues over (under) expenditures	($47,076)	($73,774)	$36,409	($172,963)	188,548
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	$6,018	$2,275	$0	$0	$0
Total Other Financing Sources (Uses)	6,018	2,275	0	0	0
Net changes in Fund Balances	($41,058)	($71,499)	$36,409	(172,963)	188,548
General Fund Balance July 1	$1,537,705	$1,522,969	$1,451,470	$1,487,879	$1,314,916
Change in accounting principle	26,322	0	0	0	0
General Fund Balance June 30	$1,522,969	$1,451,470	$1,487,879	$1,314,916	1,503,464
DETAILS OF JUNE 30 FUND BALANCE					
Restricted	$438,358	$360,949	$435,577	$504,654	
Committed	189,298	179,692	178,694	151,910	
Unassigned	895,313	910,829	873,608	658,352	
Total	$1,522,969	$1,451,470	$1,487,879	$1,314,916	

[1] The 2023-24 budget was adopted on June 26, 2023. The Hill City School Board approved a revised 2023-24 budget at their February 26, 2024 meeting. The revised budget includes revenues of $4,728,741 and expenditures of $4,489,905, for a budgeted net change in fund balance of $238,836.

GENERAL INFORMATION

LOCATION

The District, with a 2020 U.S. Census population of 1,616 and a 2022 population estimate of 1,572, and comprising an area of 259.913 square miles, is located approximately 160 miles north of the Minneapolis-St. Paul, Minnesota metropolitan area.

LARGER EMPLOYERS[1]

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees[2]
I.S.D. No. 2 (Hill City)	Elementary and secondary education	50
City of Hill City	Municipal government and services	16
Roadside Market	Gas station and convenience store	15
Sunny's	Gas station and convenience store	15
Ruthie's Restaurant	Restaurant	12
Lakeland Trailers	Manufacture pontoons, docks & utility trailers	10
Lange's Nursery & Landscaping	Garden center, irrigation & landscaping contracting	10
Enbridge	Pipe Line companies	10
Northland Hydraulics	Hydraulic manufacturers & equipment	8
Dollar General	Retail	7

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

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

2 Includes full-time, part-time and seasonal.

U.S. CENSUS DATA

Population Trend: The District

2010 U.S. Census population	1,642
2020 U.S. Census population	1,616
Percent of Change 2010 - 2020	-1.58%
2022 State Demographer Estimate	1,572

Income and Age Statistics

	The District	Aitkin County	State of Minnesota	United States
2022 per capita income	$24,207	$29,720	$44,947	$41,261
2022 median household income	$51,607	$50,900	$84,313	$75,149
2022 median family income	$63,750	$65,000	$107,072	$92,646
2022 median gross rent	$755	$809	$1,178	$1,268
2022 median value owner occupied units	$156,100	$195,700	$286,800	$281,900
2022 median age	44.7 yrs.	55.8 yrs.	38.5 yrs.	38.5 yrs.

	State of Minnesota	United States
District % of 2022 per capita income	53.86%	58.67%
District % of 2022 median family income	59.54%	68.81%

Source: 2010 and 2020 Census of Population and Housing, and 2021 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (https://data.census.gov) and Minnesota State Demographer (https://mn.gov/admin/demography/data-by-place/school-district-data.jsp).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

	Average Employment	Average Unemployment	
Year	**Aitkin County**	**Aitkin County**	**State of Minnesota**
2019	6,858	6.2%	3.3%
2020	6,920	8.3%	6.3%
2021	7,012	5.2%	3.8%
2022	7,122	4.5%	2.7%
2023	7,108	5.0%	3.0%

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.

bergankdv

Independent School District No. 2
Hill City, Minnesota

Basic Financial Statements

June 30, 2023

Independent School District No. 2
Table of Contents

Independent School District No. 2
Board of Education and Administration
June 30, 2023

Board of Education	Position
Jay Zapzalka	Chairperson
Mark Meyer	Vice-Chairman
Joell Miranda	Clerk
Sarah Kingsley	Treasurer
Ron Saxton	Director
Jeremy Nelson	Director

Administration	
Adam Johnson	Superintendent

Independent Auditor's Report

To the School Board
Independent School District No. 2
Hill City, 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. 2, Hill City, Minnesota, as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2, as of June 30, 2023, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 2 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.

Responsibilities of Management for the Financial Statements

The management of Independent School District No. 2 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, which 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 the Governmental Accounting Standards Board (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 December 6, 2023, 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
December 6, 2023

Independent School District No. 2
Management Discussion and Analysis
June 30, 2023

This section of Independent School District No. 2's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2022-2023 include the following:

- Total General Fund revenues were $4,256,736 and total General Fund expenditures were $4,429,699 for the fiscal year ended June 30, 2023. Total revenues and expenditures for all governmental funds combined were $5,015,608 and $5,172,675, respectively.
- The total fund balance in the General Fund decreased by $172,963 to $1,314,916. The Unassigned fund balance in the General Fund decreased by $215,256 to $658,352. Total General Fund revenues were 3.4% lower than the final budget, and total General Fund expenditures were 3.6% higher than the final budget.
- The total fund balance in the Food Services fund increased by $27,746 to $162,078, with revenue of $221,041 and expenditures of $193,295.
- Community Service programs offered by the District generated revenue of $217,230 and expenditures of $228,057 for the fiscal year. The total fund balance in the Community Services fund is $177,331.
- The District has general obligation bonded debt principal outstanding in the amount of $3,300,000 as of June 30, 2023. This is a decrease of $215,000 from the previous fiscal year end.
- Net position of governmental activities increased by $779,878. The total expense of governmental activities was $4,266,764. Program revenues totaled $1,945,157 and general revenues totaled $3,101,485.

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 fiduciary fund statements offer short-term and long-term financial information about the resources the District holds related to scholarships.

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.

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.

FUND FINANCIAL STATEMENTS (CONTINUED)

The District has two 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.

- **Fiduciary Funds –** The District is the trustee, or fiduciary, for assets that belong to others, such as the Custodial Fund for scholarships. 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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position from Governmental activities was $2,247,414 on June 30, 2023. (See Table A-1). Total assets and deferred outflows of resources decreased by $365,542, or 3.3%. Capital assets decreased by $27,758 as the District's depreciation expense exceeded capital outlay expenses in the current fiscal year. Total liabilities decreased by approximately $1.17 million, or 19.1%.

Table A-1
Net Position - Governmental Activities

	Year Ended 2023	Year Ended 2022	Percentage Change
Assets			
Current and other assets	$ 2,730,294	$ 2,909,253	-6.15%
Capital assets	7,162,206	7,189,964	-0.39%
Total assets	9,892,500	10,099,217	-2.05%
Deferred Outflows of Resources	989,903	1,148,728	-13.83%
Total assets and deferred outflows of resources	$ 10,882,403	$ 11,247,945	-3.25%
Liabilities			
Other liabilities	$ 445,173	$ 507,963	-12.36%
Long-term liabilities	6,866,040	5,629,852	21.96%
Total liabilities	$ 7,311,213	$ 6,137,815	19.12%
Deferred Inflows of Resources	$ 1,323,776	$ 3,642,594	-63.66%
Net Position			
Net investment in capital assets	$ 3,862,206	$ 3,674,964	5.10%
Restricted	883,712	795,282	11.12%
Unrestricted	(2,498,504)	(3,002,710)	16.79%
Total net position	$ 2,247,414	$ 1,467,536	-53.14%

Changes in Net Position

The District's total revenues were $5,046,642 for the year ended June 30, 2023. Property taxes and state formula aid accounted for 62% of total revenue for the year (See Figure A-1). 38% of total revenue came from program revenues.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The total cost of all programs and services was $4,266,764. The District's expenses are predominantly related to educating and caring for students (See Figure A-2). The purely administrative activities of the District accounted for just 8% of total costs.

Table A-2
Change in Net Position

	Year Ended 2023	Year Ended 2022	Percentage Change
Revenues			
Program revenues			
Charges for services	$ 245,988	$ 293,066	-16.06%
Operating grants and contributions	1,605,831	1,675,589	-4.16%
Capital grants and contributions	93,338	96,532	-3.31%
General revenues			
Property taxes	591,142	650,051	-9.06%
State aid-formula grants	2,466,861	2,504,703	-1.51%
Investment earnings	43,482	3,942	1003.04%
Total revenues	5,046,642	5,223,883	-3.39%
Expenses			
Administration	348,259	449,828	-22.58%
District support services	124,742	222,222	-43.87%
Elementary and secondary regular instruction	1,480,512	1,900,052	-22.08%
Vocational education instruction	41,324	54,791	-24.58%
Special education instruction	427,047	496,365	-13.97%
Instructional support services	114,956	137,488	-16.39%
Pupil support services	315,736	346,855	-8.97%
Sites and buildings	587,565	509,972	15.22%
Fiscal and other fixed cost programs	40,655	35,950	13.09%
Food service	206,472	171,306	20.53%
Community education and services	177,258	230,170	-22.99%
Unallocated depreciation	298,302	307,125	-2.87%
Interest and fiscal charges on long-term debt	103,936	109,074	-4.71%
Total expenses	4,266,764	4,971,198	-14.17%
Increase (decrease) in net position	779,878	252,685	208.64%
Net Position			
Net position - beginning	1,467,536	1,214,851	20.80%
End of year	$ 2,247,414	$ 1,467,536	-53.14%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-1
Source of Revenues for Fiscal Year 2023

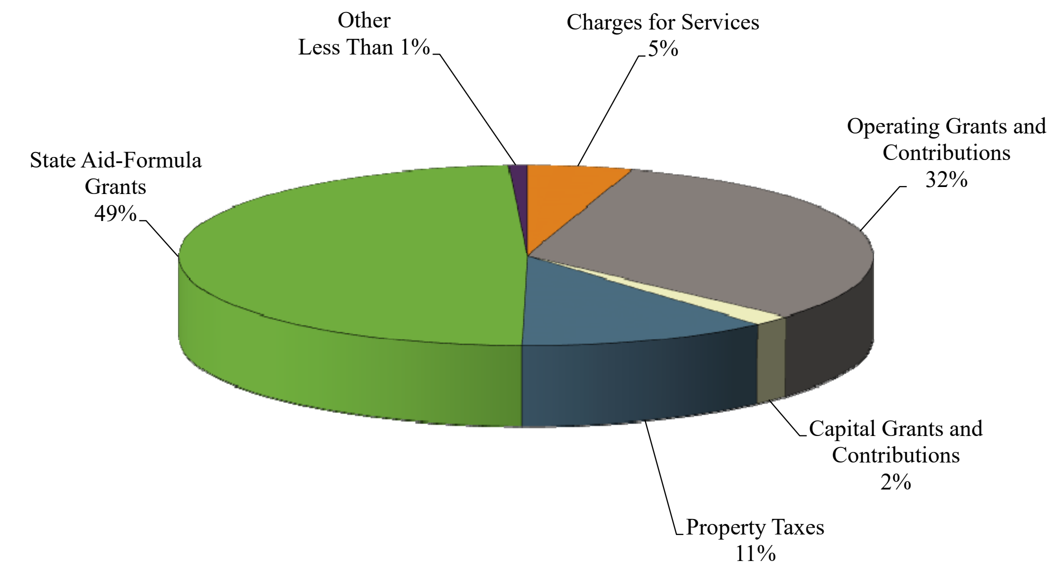
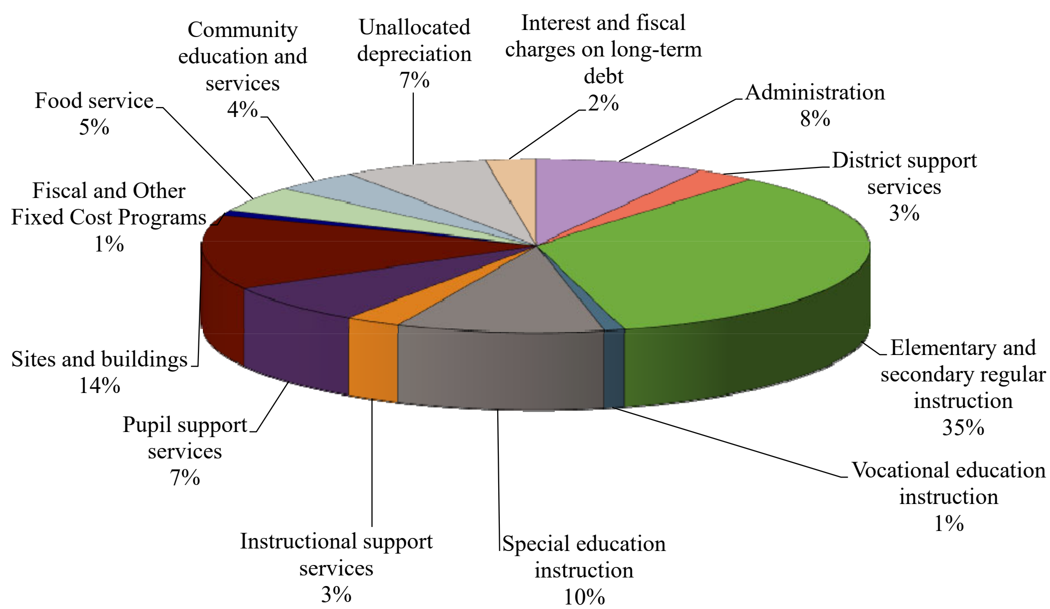


Figure A-2
Expenses for Fiscal Year 2023



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- The federal and state governments subsidized certain programs with grants and contributions of $1,699,169.
- A good portion of the District's costs $3,058,003 were paid for by District taxpayers and the taxpayers of the State of Minnesota.

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2023	2022	Change	2023	2022	Change
Administrative	$ 348,259	$ 449,828	-22.58%	$348,259	$ 438,999	-20.67%
District support services	124,742	222,222	-43.87%	124,724	222,222	-43.87%
Elementary and secondary regular instruction	1,480,512	1,900,052	-22.08%	973,967	1,251,905	-22.20%
Vocational education instruction	41,324	54,791	-24.58%	31,410	39,806	-21.09%
Special education instruction	427,047	496,365	-13.97%	57,201	5,987	855.42%
Instructional support services	114,956	137,488	-16.39%	110,623	132,888	-16.75%
Pupil support services	315,736	346,855	-8.97%	58,597	51,065	14.75%
Sites and buildings	587,565	509,972	15.22%	211,612	384,706	-44.99%
Fiscal and other fixed cost programs	40,655	35,950	13.09%	40,655	35,950	13.09%
Food service	206,472	171,306	20.53%	(14,569)	(52,085)	-72.03%
Community education and services	177,258	230,170	-22.99%	(23,110)	(21,631)	6.84%
Unallocated depreciation	298,302	307,125	-2.87%	298,302	307,125	-2.87%
Interest and fiscal charges on long-term debt	103,936	109,074	-4.71%	103,936	109,074	-4.71%
Total	$ 4,266,764	$ 4,971,198	-14.17%	$ 2,321,607	$ 2,906,011	-20.11%

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 $1,719,432, which is a decrease of $157,067 from the prior year ending fund balance. Revenues for the District's governmental funds were $5,015,608 and total expenditures were $5,172,675.

The fund balance of the General Fund decreased by $172,963. The operations of the other governmental funds: Food Service, Community Service, Building Construction, and Debt Service funds resulted in an increase in fund balance of $15,896.

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.

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenues.

Table A-4
General Fund Revenues

	Year Ended		Change	
	June 30, 2023	June 30, 2022	Increase (Decrease)	Percent Change
Local property taxes	$ 308,840	$ 369,415	$ (60,575)	-16.4%
Revenue from state sources	3,115,721	3,239,600	(123,879)	-3.8%
Revenue from federal sources	536,685	500,164	36,521	7.3%
Other	295,490	313,601	(18,111)	-5.8%
Total	$ 4,256,736	$ 4,422,780	$ (166,044)	-3.8%

Total General Fund revenue of $4,256,736 decreased by $166,044, or 3.8%, 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.

The following schedule presents a summary of General Fund expenditures.

Table A-5
General Fund Expenditures

	Year Ended		Change	
	June 30, 2023	June 30, 2022	Increase (Decrease)	Percent Change
Salaries	$ 2,378,370	$ 2,561,082	$ (182,712)	-7.1%
Employee benefits	537,619	626,349	(88,730)	-14.2%
Purchased services	925,486	838,760	86,726	10.3%
Supplies and materials	234,337	216,132	18,205	8.4%
Capital expenditures	311,969	99,555	212,414	213.4%
Other expenditures	41,918	44,493	(2,575)	-5.8%
Total	$ 4,429,699	$ 4,386,371	$ 43,328	1.0%

The total General Fund expenditures of $4,429,699 was an increase of $43,328, or 1.0%, from the prior year. Capital expenditure costs increased by $212,414, or 213.4%, from the prior year based on the amount of building and construction expenditures.

In 2022-2023, General Fund expenditures exceeded revenues by $172,963, which was a $304,368 higher decrease than budgeted. Revenue received was $151,155 lower than budgeted and expenditures were $153,213 higher than budgeted.

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 fund balance increased by $45,922 in 2022-2023. Food Service Fund revenue for 2022-2023 totaled $221,041, which is a decrease of $2,350 from 2021-2022. Food Service Fund expenditures for 2022-2023 totaled $193,295, an increase of $15,826 from 2021-2022.

COMMUNITY SERVICE FUND

The Community Service Fund accounts for the activities related to providing education services for Pre-Kindergarten 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 $10,827 in 2022-2023. Community Service Fund revenues for 2022-2023 totaled $217,230. This was a decrease of $51,785 from 2021-2022. Community Service Fund expenditures for 2022-2023 totaled $228,057. This was a decrease of $17,586 from 2021-2022.

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

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.

Debt service revenue was $320,601 for 2022-2023, 83% of which came from property tax revenue. Debt service expenditures were $321,624. The District made principal payments in the amount of $215,000 and interest and fiscal charge payments of $106,624. The Debt Service Fund has a fund balance of $65,107 as of June 30, 2023, 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2023, the District had invested $15,231,921 in a broad range of capital assets including: school buildings, land, and other equipment for various instructional programs (see Table A-6). Accumulated depreciation as of June 30, 2023, was $8,069,715, with current year depreciation expense for Governmental Activities totaling $361,925. See Note 3 to the financial statements for additional information.

Table A-6
Capital Assets

	Year Ended 2023	Year Ended 2022	Percent Change
Land	$ 29,446	$ 29,446	0.0%
Construction in progress	35,000	35,000	0.0%
Land improvements	374,861	374,861	0.0%
Buildings and improvements	13,910,853	13,642,831	2.0%
Machinery and equipment	881,761	815,616	8.1%
Less accumulated depreciation	(8,069,715)	(7,707,790)	4.7%
Total capital assets	$ 7,162,206	$ 7,189,964	-0.4%

Long-Term Liabilities

For the fiscal year ended June 30, 2023, the District had $6,866,040 in long-term liabilities outstanding, including $3,300,000 in General Obligation Bonds. The increase in total long-term liabilities was $1,236,188, or 22.0%, from last year (see Table A-7). See Notes 4, 6 and 7 for additional information.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities (Continued)

Table A-7
Long-Term Liabilities

	Year Ended 2023	Year Ended 2022	Percent Change
General obligation bonds	$ 3,300,000	$ 3,515,000	-6.1%
Net pension liability	3,315,144	1,814,755	82.7%
Total OPEB liability	98,985	121,404	-18.5%
Severance payable	151,911	178,693	-15.0%
Total long-term liabilities	$ 6,866,040	$ 5,629,852	22.0%
Long-term liabilities			
Due within one year	$ 251,861	$ 223,016	
Due in more than one year	6,614,179	5,406,836	
Total	$ 6,866,040	$ 5,629,852	

FACTORS BEARING ON THE DISTRICT'S FUTURE

- Declining enrollment
- Ability to fill open staffing positions due to lack of applicants
- Rising health care cost

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 Business Office, Independent School District No. 2, 500 Ione Ave NW, Hill City, Minnesota 55748.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 2
Statement of Net Position
June 30, 2023

	Governmental Activities
Assets	
Cash and investments	$ 1,654,848
Current property taxes receivable	159,967
Delinquent property taxes receivable	26,456
Accounts receivable	73,586
Due from Department of Education	334,120
Due from Federal Government through Department of Education	477,411
Inventory	3,906
Capital assets not being depreciated	
Land	29,446
Construction in progress	35,000
Capital assets being depreciated	
Land improvements	374,861
Buildings	13,910,853
Equipment	881,761
Less accumulated depreciation	(8,069,715)
Total assets	9,892,500
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	971,549
Deferred outflows of resources related to OPEB	18,354
Total deferred outflows of resources	989,903
Total assets and deferred outflows of resources	$ 10,882,403
Liabilities	
Accounts payable	$ 41,911
Salaries and benefits payable	335,900
Interest payable	41,739
Due to other Minnesota school districts	25,517
Due to other governmental units	106
Bond principal payable	
Payable within one year	220,000
Payable after one year	3,080,000
Severance payable	
Payable within one year	31,861
Payable after one year	120,050
Net pension liability	3,315,144
Total OPEB liability	98,985
Total liabilities	7,311,213
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	580,972
Deferred inflows of resources related to pensions	742,804
Total deferred inflows of resources	1,323,776
Net Position	
Net investment in capital assets	3,862,206
Restricted for	
Debt service	38,807
Other purposes	844,905
Unrestricted	(2,498,504)
Total net position	2,247,414
Total liabilities, deferred inflows of resources, and net position	$ 10,882,403

Independent School District No. 2
Statement of Activities
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 348,259	$ -	$ -	$ -	$ (348,259)
District support services	124,742	18	-	-	(124,724)
Elementary and secondary regular instruction	1,480,512	136,526	370,019	-	(973,967)
Vocational education instruction	41,324	5,500	4,414	-	(31,410)
Special education instruction	427,047	22,219	347,627	-	(57,201)
Instructional support services	114,956	4,333	-	-	(110,623)
Pupil support services	315,736	-	257,139	-	(58,597)
Sites and buildings	587,565	-	282,615	93,338	(211,612)
Fiscal and other fixed cost programs	40,655	-	-	-	(40,655)
Food service	206,472	41,198	179,843	-	14,569
Community education and services	177,258	36,194	164,174	-	23,110
Unallocated depreciation	298,302	-	-	-	(298,302)
Interest and fiscal charges on long-term debt	103,936	-	-	-	(103,936)
Total governmental activities	$ 4,266,764	$ 245,988	$ 1,605,831	$ 93,338	(2,321,607)
General revenues					
Taxes					
Property taxes, levied for general purposes					308,840
Property taxes, levied for community service					16,897
Property taxes, levied for debt service					265,405
State aid-formula grants					2,466,861
Investment income					43,482
Total general revenues					3,101,485
Change in net position					779,878
Net position - beginning					1,467,536
Net position - ending					$ 2,247,414

Independent School District No. 2
Balance Sheet - Governmental Funds
June 30, 2023

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments	$ 1,002,757	$ 286,979	$ 365,112	$ 1,654,848
Current property taxes receivable	64,610	91,437	3,920	159,967
Delinquent property taxes receivable	10,175	15,439	842	26,456
Accounts receivable	73,566	-	20	73,586
Due from Department of Education	325,297	5,593	3,230	334,120
Due from Federal Government through Department of Education	470,536	-	6,875	477,411
Inventory	-	-	3,906	3,906
Total assets	$ 1,946,941	$ 399,448	$ 383,905	$ 2,730,294
Liabilities				
Accounts payable	$ 32,797	$ -	$ 9,114	$ 41,911
Salaries and benefits payable	318,608	-	17,292	335,900
Due to other Minnesota school districts	25,517	-	-	25,517
Due to other governmental units	106	-	-	106
Total liabilities	377,028	-	26,406	403,434
Deferred Inflows of Resources				
Property taxes levied for subsequent year's expenditures	244,822	318,902	17,248	580,972
Unavailable revenue - delinquent taxes	10,175	15,439	842	26,456
Total deferred inflows of resources	254,997	334,341	18,090	607,428
Fund Balances				
Nonspendable	-	-	3,906	3,906
Restricted	504,654	65,107	335,503	905,264
Committed	151,910	-	-	151,910
Unassigned	658,352	-	-	658,352
Total fund balances	1,314,916	65,107	339,409	1,719,432
Total liabilities, deferred inflows of resources, and fund balances	$ 1,946,941	$ 399,448	$ 383,905	$ 2,730,294

Independent School District No. 2
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2023

Total fund balances - governmental funds	$ 1,719,432
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	15,231,921
Less accumulated depreciation	(8,069,715)
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	(3,300,000)
Severance payable	(151,911)
Total OPEB liability	(98,985)
Net pension liability	(3,315,144)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	971,549
Deferred inflows of resources related to pensions	(742,804)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences related to OPEB that are not recognized in the governmental funds.	
Deferred outflows of resources related to OPEB	18,354
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	26,456
Governmental funds do not report a liability for accrued interest on bonds until due and payable.	(41,739)
Total net position - governmental activities	$ 2,247,414

See notes to basic financial statements.

Independent School District No. 2
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2023

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Revenues				
Local property taxes	$ 308,840	$ 264,671	$ 16,852	$ 590,363
Other local and county revenues	291,139	(1)	119,504	410,642
Revenue from state sources	3,115,721	55,931	81,489	3,253,141
Revenue from federal sources	536,685	-	179,228	715,913
Sales and other conversion of assets	4,351	-	41,198	45,549
Total revenues	4,256,736	320,601	438,271	5,015,608
Expenditures				
Current				
Administration	419,222	-	-	419,222
District support services	117,692	-	-	117,692
Elementary and secondary regular instruction	1,913,066	-	-	1,913,066
Vocational education instruction	68,539	-	-	68,539
Special education instruction	529,940	-	-	529,940
Instructional support services	109,867	-	-	109,867
Pupil support services	342,778	-	-	342,778
Sites and buildings	575,971	-	-	575,971
Fiscal and other fixed cost programs	40,655	-	-	40,655
Food service	-	-	176,781	176,781
Community education and services	-	-	227,582	227,582
Capital outlay				
District support services	5,673	-	-	5,673
Elementary and secondary regular instruction	17,107	-	-	17,107
Special education instruction	145	-	-	145
Sites and buildings	289,044	-	-	289,044
Food service	-	-	16,514	16,514
Community education and services	-	-	475	475
Debt service				
Principal	-	215,000	-	215,000
Interest and fiscal charges	-	106,624	-	106,624
Total expenditures	4,429,699	321,624	421,352	5,172,675
Net change in fund balances	(172,963)	(1,023)	16,919	(157,067)
Fund Balances				
Beginning of year	1,487,879	66,130	322,490	1,876,499
End of year	$ 1,314,916	$ 65,107	$ 339,409	$ 1,719,432

Independent School District No. 2
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended June 30, 2023

Net change in fund balances - total governmental funds	$	(157,067)
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 estimated useful lives as depreciation expense.		
Capital outlays		334,167
Depreciation expense		(361,925)
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.		26,782
OPEB are recognized as they are paid in the governmental funds but are recognized as the expense in incurred in the Statement of Activities		23,855
Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.		694,950
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Net Position.		215,000
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.		2,688
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.		1,428
Change in net position - governmental activities	$	779,878

Independent School District No. 2
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 321,767	$ 321,767	$ 308,840	$ (12,927)
Other local and county revenues	227,893	170,420	291,139	120,719
Revenue from state sources	3,141,274	3,214,905	3,115,721	(99,184)
Revenue from federal sources	697,769	697,769	536,685	(161,084)
Sales and other conversion of assets	3,030	3,030	4,351	1,321
Total revenues	4,391,733	4,407,891	4,256,736	(151,155)
Expenditures				
Current				
Administration	446,417	418,201	419,222	1,021
District support services	225,198	133,214	117,692	(15,522)
Elementary and secondary regular instruction	1,772,962	1,795,166	1,913,066	117,900
Vocational education instruction	66,808	66,808	68,539	1,731
Special education instruction	526,436	465,287	529,940	64,653
Instructional support services	90,073	90,073	109,867	19,794
Pupil support services	334,995	312,668	342,778	30,110
Sites and buildings	624,231	624,231	575,971	(48,260)
Fiscal and other fixed cost programs	35,950	35,950	40,655	4,705
Capital outlay				
District support services	7,950	7,950	5,673	(2,277)
Elementary and secondary regular instruction	36,009	36,009	17,107	(18,902)
Vocational education instruction	6,500	6,500	-	(6,500)
Special education instruction	-	-	145	145
Pupil support services	9,770	9,770	-	(9,770)
Sites and buildings	274,659	274,659	289,044	14,385
Total expenditures	4,457,958	4,276,486	4,429,699	153,213
Net change in fund balances	$ (66,225)	$ 131,405	(172,963)	$ (304,368)
Fund Balances				
Beginning of year			1,487,879	
End of year			$ 1,314,916	

See notes to basic financial statements.

Independent School District No. 2
Statement of Fiduciary Net Position
June 30, 2023

	Custodial Fund
Assets	
Cash and investments	$ 1,864
Net Position	
Restricted for Scholorships	$ 1,864

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2023

	Custodial Fund
Net Position	
Beginning of year	$ 1,864
End of year	$ 1,864

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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 six member board elected by the voters of the District to serve three-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 fund. The fiduciary fund is only reported in the Statement of Fiduciary Net Position and the 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

The Custodial Fund is 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 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 in the following manner.

1. Revenue Recognition

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

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available, and applies unrestricted funds in this order: committed, assigned, and unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District and includes the general operations and pupil transportation activities of the District, as well as the capital related activities.

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

Nonmajor Funds:

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

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

Fiduciary Fund:

Custodial Fund – The Custodial Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

D. Deposits and Investments

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

Cash and investments at June 30, 2023, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF).

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

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

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2022, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2023. The remaining portion of the levy will be recognized when measurable and available.

G. Inventory

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

H. 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. Aitkin County is the collecting agency 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.

I. Capital Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (Continued)

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 with an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

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

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

J. Deferred Outflows/Inflows of Resources

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 from the actual debt proceeds received, are reported as debt service expenditures.

L. Compensated Absences

Vacation pay and paid time off is earned at various rates by certain employees and accrued as compensated absences in the Statement of Net Position.

District employees are entitled to sick leave at various rates and qualify based on years of service. Certain employees are compensated for unused sick leave upon termination of employment; unused sick leave also enters into the calculation of some employee's severance pay.

M. 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.

N. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2023.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Equity

1. Classification

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include prepaid items and inventory.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions set by either statute or creditors.
- Committed Fund Balances – These are amounts that can be used for specific purposes pursuant to the constraint imposed by the School Board, the highest level of decision making authority. Such designations will be approved by a majority vote of the School Board.
- Assigned Fund Balances – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The School Board, by majority vote, may assign fund balances to be used for a specific purpose when appropriate. The board also delegates the power to assign fund balances to the Business Manager.
- Unassigned Fund Balances – These are the residual amounts in the General Fund not reported in any other classification. Unassigned amounts in the General Fund are technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed balances exceed the total net resources of that fund.

2. Minimum Fund Balance Policy

The District will strive to construct an adequate unassigned General Fund balance of 8% of the annual budget.

P. Net Position

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

Q. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Budgetary Information

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

Procedurally, in establishing the budgetary data reflected in these basic financial statements, the Superintendent, or such other school official as designated by the Superintendent, submits to the School Board prior to July 1, a proposed operating budget for the year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Budget revisions are presented and approved by the School Board in the spring.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's formal policies, to address custodial credit risk for deposits follow the requirements in State Statutes. As of June 30, 2023, the District's bank balance was not exposed to custodial credit risk because it was properly insured and collateralized.

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

Checking and savings	$ 641,188

B. Investments

As of June 30, 2023, the District had the following investments:

		Investment Maturity (In Years)		
Investment Type	Type	Fair Value	Less than 1 Year	Ratings
Pooled				
MSDLAF	LAF	$ 150,251	$ 150,251	AAAm
MSDLAF - MAX	MAX	864,523	864,523	AAAm
Total		$ 1,014,774	$ 1,014,774	

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)
The District had no formal policies in place as of June 30, 2023, to address interest rate risk, concentration of credit risk, or custodial credit risk for investments noted below.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statues* §§ 118A.04 and 118A.05 outline allowable investments. The Districts investments were rated as indicated above.

Interest Rate Risk: This is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer.

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.

Below is a summary of total deposits and investments:

Petty cash	$ 750
Deposits (Note 2.A.)	641,188
Investments (Note 2.B.)	1,014,774
Total deposits and investments	$ 1,656,712

Deposits and investments at June 30, 2023, are presented as follows:

Statement of Net Position	
Cash and investments	$ 1,654,848
Statement of Fiduciary Net Position	
Cash and investments	1,864
Total	$ 1,656,712

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 29,446	$ -	$ -	$ 29,446
Construction in progress	35,000	-	-	35,000
Total capital assets not being depreciated	64,446	-	-	64,446
Capital assets being depreciated				
Land improvements	374,861	-	-	374,861
Buildings	13,642,831	268,022	-	13,910,853
Equipment	815,616	66,145	-	881,761
Total capital assets being depreciated	14,833,308	334,167	-	15,167,475
Less accumulated depreciation for				
Land improvements	285,719	13,688	-	299,407
Buildings	6,868,938	308,783	-	7,177,721
Equipment	553,133	39,454	-	592,587
Total accumulated depreciation	7,707,790	361,925	-	8,069,715
Total capital assets being depreciated, net	7,125,518	(27,758)	-	7,097,760
Governmental activities, capital assets, net	$ 7,189,964	$ (27,758)	$ -	$ 7,162,206

Depreciation expense of $361,925 for the year ended June 30, 2023, was charged to the following governmental functions:

Elementary and secondary regular instruction	$ 16,489
Vocational education instruction	2,185
Instructional support services	3,891
Pupil support services	7,516
Sites and buildings	25,313
Food service	8,076
Community service	153
Unallocated	298,302
Total depreciation expense	$ 361,925

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities					
G.O. School Building Bonds, Series 2017A	3.000-3.125%	$ 4,000,000	02/01/37	$ 3,300,000	$ 220,000
Severance payable				151,911	31,861
Total long-term liabilities				$ 3,451,911	$ 251,861

Long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities. Other long-term liabilities such as severance payable are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire bond liabilities:

Year Ending June 30,	G.O. Bonds Principal	G.O. Bonds Interest	G.O. Bonds Total
2024	$ 220,000	$ 100,174	$ 320,174
2025	225,000	93,574	318,574
2026	235,000	86,824	321,824
2027	240,000	79,774	319,774
2028	200,000	72,574	272,574
2029-2033	1,140,000	266,419	1,406,419
2034-2037	1,040,000	82,154	1,122,154
Total	$ 3,300,000	$ 781,493	$ 4,081,493

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilties				
G.O. Bonds	$ 3,515,000	$ -	$ 215,000	$ 3,300,000
Severance payable	178,693	5,079	31,861	151,911
Total long-term liabilties	$ 3,693,693	$ 5,079	$ 246,861	$ 3,451,911

NOTE 5 – FUND BALANCES

A. Fund Balance

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

	General Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable for				
Inventory	$ -	$ -	$ 3,906	$ 3,906
Restricted/reserved for				
Student Activities	37,832	-	-	37,832
Scholarships	2,529	-	-	2,529
Staff Development	79,373	-	-	79,373
Operating Capital	266,110	-	-	266,110
Teacher Development and Evaluation	399	-	-	399
Basic Skills Programs	40,067	-	-	40,067
Achievement and Integration Revenue	7,360	-	-	7,360
Safe School Crime	18,487	-	-	18,487
Gifted and Talented	2,634	-	-	2,634
Medical Assistance	49,863	-	-	49,863
Debt Service	-	65,107	-	65,107
Food Service	-	-	158,172	158,172
Community Education	-	-	66,836	66,836
Early Childhood and Family Education (ECFE)	-	-	58,435	58,435
School Readiness	-	-	22,699	22,699
Community Service	-	-	29,361	29,361
Total restricted/reserved	504,654	65,107	335,503	905,264
Committed for separation	151,910	-	-	151,910
Unassigned	658,352	-	-	658,352
Total fund balance	$ 1,314,916	$ 65,107	$ 339,409	$ 1,719,432

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

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

NOTE 5 – FUND BALANCES (CONTINUED)

A. Fund Balance (Continued)
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).

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 Teacher Development and Evaluation – This balance represents resources available for teacher development and evaluation uses listed in *Minnesota Statutes* §§ 122A.40, subd. 8 or 122A.41, subd. 5.

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

Restricted/Reserved for Achievement and Integration Revenue – The unspent resources available from the Achievement and Integration program must be restricted in this account for use within the fiscal year.

Restricted/Reserved for Safe Schools Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

Restricted/Reserved for Gifted and Talented – The part of General Education Aid revenue for the gifted and talented program that is unspent at year end must be restricted in this Balance Sheet account.

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 resources available for payment of G.O. bond principal, interest, and related costs.

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

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

NOTE 5 – FUND BALANCES (CONTINUED)

A. Fund Balance (Continued)

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for ECFE programming.

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 Community Service – This balance represents the remaining positive fund balance of the Community Service Fund that is not restricted for other purposes.

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

B. Net Position

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was ($459,270). The components of pension expense are noted in the following plan summaries.

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

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 Plan (DCP) administered by Minnesota State.

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

Teachers' Retirement Association (Continued)

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 five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

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).

Tier II Benefits

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. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under *Minnesota Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)
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.

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. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2021, June 30, 2022, and June 30, 2023, were:

	June 30, 2021		June 30, 2022		June 30, 2023	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.0%	12.13%	11.0%	12.34%	11.0%	12.55%
Coordinated	7.5%	8.13%	7.5%	8.34%	7.5%	8.55%

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

The following is a reconciliation of employer contributions in TRA's fiscal year 2022 ACFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations. Amounts are reported in thousands.

Employer contributions reported in TRA's ACFR Statement of Changes in Fiduciary Net Position	$ 482,679
Employer contributions not related to future contribution efforts	(2,178)
TRA's contributions not included in allocation	(572)
Total employer contributions	479,929
Total non-employer contributions	35,590
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$ 515,519

Amounts reported in the allocation schedules may not precisely agree with basic financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2022
Measurement date	June 30, 2022
Experience study	June 28, 2019 (demographic and economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028.
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028.
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions	
Pre-retirement	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.
Post-retirement	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 projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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 table on the following page.

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	100.0 %	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2023 is six years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions", and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is five years as required by GASB 68.

Changes in actuarial assumptions since the 2021 valuation:

- None

E. Discount Rate

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

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2023, the District reported a liability of $2,594,421 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.0324% at the end of the measurement period and 0.0321% for the beginning of the year.

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

District's proportionate share of net pension liability	$	2,594,421
State's proportionate share of the net pension		

For the year ended June 30, 2023, the District recognized pension expense of ($552,535). Included in this amount, the District recognized $26.438 as pension expense for the support provided by direct aid.

On June 30, 2023, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 38,838	$ 23,199
Net collective difference between projected and actual earnings on plan investments	84,687	-
Changes of assumptions	411,815	588,005
Changes in proportion	37,556	102,183
Contributions to TRA subsequent to the measurement date	161,653	-
Total	$ 734,549	$ 713,387

The $161,653 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, 2024.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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
2024	$ (514,514)
2025	43,837
2026	1,842
2027	324,325
2028	4,019
Total	$ (140,491)

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.

District proportionate share of NPL		
1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Decrease in Discount Rate (8.0%)
$ 4,089,963	$ 2,594,421	$ 1,368,542

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

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, 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.

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

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 and 356. PERA's defined benefit pension plans are tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

The General Employees Retirement Plan covers certain full time and part time employees of the District. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1 the annuity accrual rate for a Coordinated Plan member is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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

Public Employees' Retirement Association (Continued)

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023 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, 2023, were $44,421. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2023, the District reported a liability of $720,723 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 $21,204.

The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0091% at the end of the measurement period and 0.0096% for the beginning of the period.

School's proportionate share of net pension liability	$	720,723
State of Minnesota's proportionate share of the net pension liability associated with the School		21,204
Total	$	741,927

For the year ended June 30, 2023, the District recognized pension expense of $93,265 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $3,168 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.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)
At June 30, 2023, 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	$ 6,020	$ 8,091
Changes in actuarial assumptions	171,805	2,963
Net collective difference between projected and actual investment earnings	-	2,349
Changes in proportion	14,754	16,014
Contributions paid to PERA subsequent to the measurement date	44,421	-
Total	$ 237,000	$ 29,417

The $44,421 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, 2024. 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
2024	$ 65,620
2025	65,716
2026	(33,352)
2027	65,178
Total	$ 163,162

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

Public Employees' Retirement Association (Continued)

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

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

F. Actuarial Methods and Assumptions
The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual 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 6.5%. This 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 deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

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.

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.

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

Public Employees' Retirement Association (Continued)

F. Actuarial Methods and Assumptions (Continued)

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

General Employees Fund

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.

G. Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.5%. 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 (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
District's proportionate share of the PERA net pension liability	$ 1,138,420	$ 720,723	$ 378,147

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 basic financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

B. Benefits Provided

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

C. Members

As of June 30, 2022 the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Active employees electing coverage	12
Active employees waiving coverage	36
Total	50

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms. The required contributions are based on projected pay-as-you-go financing requirements. For the fiscal year 2023, the District contributed $18,354 to the plan.

E. Assumptions

The total OPEB liability was determined using the alternative measurement method (AMM) as of June 30, 2022, using the following valuation assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Discount rate	3.69%
Inflation	2.50%
Healthcare cost trend increases	6.8% for FY2023, gradually decreasing over several decades to an ultimate rate of 3.9% in FY2076 and later years.
Mortality Assumption	Teachers: RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments. Non-Teachers: Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2021, and other adjustments.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Assumptions (Continued)

The valuation assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period July 1, 2021 to June 30, 2022.

The discount rate used to measure the total OPEB liability was 3.69% using the 20-year municipal bond yield.

F. Total OPEB Liability

The District's total OPEB liability of $98,985 was measured using the AMM as of June 30, 2022, and was determined by a valuation as of the same date.

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
Balances at June 30, 2022	$ 121,404
Changes for the year	
Service cost	10,591
Interest cost	2,372
Differences between expected and actual experience	(6,964)
Changes of assumptions	(11,500)
Benefit payments	(16,918)
Net changes	(22,419)
Balances at June 30, 2023	$ 98,985

Changes of assumptions and other inputs reflect a change in the discount rate from 1.92% in 2021 to 3.69% in 2022.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.69% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

Total OPEB Liablity		
1% Decrease in Discount Rate (2.69%)	Current Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
$ 105,657	$ 95,985	$ 92,740

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

Total OPEB Liability		
1% Decrease (5.8% Decreasing to 2.9%)	Current (6.8% Decreasing to 3.9%)	1% Increase (7.8% Decreasing to 4.9%)
$ 90,265	$ 98,985	$ 109,310

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

For the year ended June 30, 2023, the District recognized OPEB expense of ($5,501). At June 30, 2023, 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
Contributions subsequent to the measurement date	$ 18,354	$ -

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 2
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021
Total OPEB Liability				
Service cost	$ 14,906	$ 14,734	$ 10,068	$ 11,288
Interest cost	5,689	6,413	3,568	3,606
Differences between expected and actual experience	-	(62,898)	-	(48,482)
Changes of assumptions	(5,408)	(24,371)	3,038	51,716
Benefit payments	(37,844)	(21,546)	-	(2,536)
Net change in total OPEB liability	(22,657)	(87,668)	16,674	15,592
Beginning of year	198,829	176,172	88,504	105,178
End of year	$ 176,172	$ 88,504	$ 105,178	$ 120,770
Covered payroll	$ 2,316,766	$ 2,261,376	$ 2,668,074	$ 2,425,284
Total OPEB liability as a percentage of covered-payroll	7.60%	3.91%	3.94%	4.98%

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

June 30, 2022	June 30, 2023
$ 9,555	$ 10,591
2,998	2,372
-	(6,964)
4,001	(11,500)
(15,920)	(16,918)
634	(22,419)
120,770	121,404
$ 121,404	$ 98,985
$ 2,415,691	$ 2,482,852
5.03%	3.99%

See notes to required supplementary information.

Independent School District No. 2
Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability - General Employees Retirement Fund
Last Ten Years

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0101%	$ 474,447	$ -	$ 474,447	$ 527,931	89.9%	78.8%
2015	0.0094%	487,157	-	487,157	546,187	89.2%	78.2%
2016	0.0097%	787,592	10,258	797,850	602,747	130.7%	68.9%
2017	0.0096%	612,858	7,732	620,590	668,600	91.7%	75.9%
2018	0.0095%	527,021	17,267	544,288	640,307	82.3%	79.5%
2019	0.0090%	497,590	15,499	513,089	637,920	78.0%	80.2%
2020	0.0092%	551,582	17,038	568,620	658,440	83.8%	79.1%
2021	0.0096%	409,963	12,528	422,491	689,720	59.4%	87.0%
2022	0.0091%	720,723	21,204	741,927	681,880	105.7%	76.7%

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

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

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0370%	$ 1,704,933	$ 119,920	$ 1,824,853	$ 1,839,543	92.7%	81.5%
2015	0.0337%	2,084,678	255,686	2,340,364	1,709,360	122.0%	76.8%
2016	0.0332%	7,918,992	795,504	8,714,496	1,727,787	458.3%	44.9%
2017	0.0339%	6,767,055	654,426	7,421,481	1,824,080	371.0%	51.6%
2018	0.0347%	2,179,357	204,984	2,384,341	1,917,027	113.7%	78.1%
2019	0.0344%	2,192,663	193,815	2,386,478	1,953,385	112.2%	78.2%
2020	0.0334%	2,467,637	206,801	2,674,438	1,938,422	127.3%	75.4%
2021	0.0321%	1,404,792	118,454	1,523,246	1,922,952	73.1%	86.6%
2022	0.0324%	2,594,421	192,270	2,786,691	2,001,391	129.6%	76.2%

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

Independent School District No. 2
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 38,275	$ 38,275	$ -	$ 527,931	7.25%
2015	40,964	40,964	-	546,187	7.50%
2016	45,206	45,206	-	602,747	7.50%
2017	50,145	50,145	-	668,600	7.50%
2018	48,023	48,023	-	640,307	7.50%
2019	47,844	47,844	-	637,920	7.50%
2020	49,383	49,383	-	658,440	7.50%
2021	51,729	51,729	-	689,720	7.50%
2022	51,141	51,141	-	681,880	7.50%
2023	44,421	44,421	-	592,280	7.50%

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 128,768	$ 128,768	$ -	$ 1,839,543	7.00%
2015	128,202	128,202	-	1,709,360	7.50%
2016	129,584	129,584	-	1,727,787	7.50%
2017	136,806	136,806	-	1,824,080	7.50%
2018	143,777	143,777	-	1,917,027	7.50%
2019	150,606	150,606	-	1,953,385	7.71%
2020	153,523	153,523	-	1,938,422	7.92%
2021	156,336	156,336	-	1,922,952	8.13%
2022	166,916	166,916	-	2,001,391	8.34%
2023	161,653	161,653	-	1,890,678	8.55%

Independent School District No. 2
Notes to the Required Supplementary Information

TRA Retirement Fund

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%.
- 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.

TRA Retirement Fund (Continued)

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%.
- 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.

TRA Retirement Fund (Continued)

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. 2
Notes to the Required Supplementary Information

General Employees Fund

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%.
- 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 changes 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 retires 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.

Independent School District No. 2
Notes to the Required Supplementary Information

General Employees Fund (Continued)

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 changes prospectively, requiring $16 million due per year through 2031.

2018 Changes
Changes in Actuarial Assumptions
- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. 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.

General Employees Fund (Continued)

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.

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. 2
Notes to the Required Supplementary Information

Post Employment Health Care Plan

2023 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 1.92% to 3.69% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.
- Mortality rates were updated from the rates used in the 7/1/202 PERA General Employees Plan valuation to the rates used in the 7/1/2022 valuation.
- The inflation assumption was changed from 2.25% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

2022 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 2.45% to 1.92% based on updated 20-year municipal bond rates.

2021 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 3.13% to 2.45% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience, new plan offerings and the Alternative Measurement calculation method.
- Withdrawal, mortality and salary increase rates were updated from the rates used in the 7/1/2018 PERA General Employees Retirement Plan and 7/1/2018 Teachers Retirement Association valuations to the rates used in the 7/1/2020 valuations.
- The retirement rates were updated from rates used in the 7/1/2018 PERA General Employees Retirement Plan and 7/1/2018 Teachers Retirement Association valuations to assuming latest of age 60, plan eligibility or current age.
- The percent of retirees electing spouse coverage changed from 100% assumed to elect single coverage to active employee's current election.
- The percent of future non Medicare eligible retirees electing each medical plan were updated to the employee's current election.
- The inflation assumption was changed from 2.5% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The valuation method was changed from a full valuation to the Alternative Measurement Method since the total number of members does not exceed 100.

Post Employment Health Care Plan (Continued)

2020 Changes
Changes in Actuarial Assumptions

- The discount rate was changed from 3.62% to 3.13% based on updated 20-year municipal bond rates.

2019 Changes
Changes in Actuarial Assumptions

- The discount rate was changed from 3.56% to 3.62% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations.
- The percentage of future retirees not eligible for an explicit subsidy assumed to elect coverage at retirement changed from 40% to 30% to reflect recent plan experience.
- The inflation assumption was changed from 2.75% to 2.50% based on updated historical analysis of inflation rates and forward-looking market expectations.

SUPPLEMENTARY INFORMATION

Independent School District No. 2
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2023

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
Assets			
Cash and investments	$ 166,745	$ 198,367	$ 365,112
Current property taxes receivable	-	3,920	3,920
Delinquent property taxes receivable	-	842	842
Accounts receivable	20	-	20
Due from Department of Education	-	3,230	3,230
Due from federal government			
Through department of education	-	6,875	6,875
Inventory	3,906	-	3,906
Total assets	$ 170,671	$ 213,234	$ 383,905
Liabilities			
Accounts payable	$ 175	$ 8,939	$ 9,114
Salaries and benefits payable	8,418	8,874	17,292
Total liabilities	8,593	17,813	26,406
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	17,248	17,248
Unavailable revenue - delinquent taxes	-	842	842
Total deferred inflows of resources	-	18,090	18,090
Fund Balances			
Nonspendable	3,906	-	3,906
Restricted	158,172	177,331	335,503
Total fund balances	162,078	177,331	339,409
Total liabilities, deferred inflows of resources, and fund balances	$ 170,671	$ 213,234	$ 383,905

Independent School District No. 2
Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2023

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
Revenues			
Local property taxes	$ -	$ 16,852	$ 16,852
Other local and county revenues	300	119,204	119,504
Revenue from state sources	7,190	74,299	81,489
Revenue from federal sources	172,353	6,875	179,228
Sales and other conversion of assets	41,198	-	41,198
Total revenues	221,041	217,230	438,271
Expenditures			
Current			
Food service	176,781	-	176,781
Community education and services	-	227,582	227,582
Capital outlay			
Food service	16,514	-	16,514
Community education and services	-	475	475
Total expenditures	193,295	228,057	421,352
Net change in fund balances	27,746	(10,827)	16,919
Fund Balances			
Beginning of year	134,332	188,158	322,490
End of year	$ 162,078	$ 177,331	$ 339,409

Independent School District No. 2
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2023

		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				
Total revenue		$ 4,256,736	$ 4,256,738	$ (2)
Total expenditures		4,429,699	4,429,699	-
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.01	Student Activities	37,832	37,830	2
4.02	Scholarships	2,529	2,528	1
4.03	Staff Development	79,373	79,373	-
4.07	Capital Projects Levy	-	-	-
4.08	Cooperative Programs	-	-	-
4.09	Alternative Facility Program	-	-	-
4.13	Building Projects Funded by COP/LP	-	-	-
4.14	Operating Debt	-	-	-
4.16	Levy Reduction	-	-	-
4.17	Taconite Building Maintenance	-	-	-
4.24	Operating Capital	266,110	266,110	-
4.26	$25 Taconite	-	-	-
4.27	Disabled Accessibility	-	-	-
4.28	Learning and Development	-	-	-
4.34	Area Learning Center	-	-	-
4.35	Contracted Alternative Programs	-	-	-
4.36	State Approved Alternative Program	-	-	-
4.38	Gifted and Talented	2,634	2,634	-
4.40	Teacher Development and Evaluation	399	399	-
4.41	Basic Skills Programs	40,067	40,067	-
4.46	First Grade Preparedness	-	-	-
4.48	Achievement and Integration Revenue	7,360	7,360	-
4.49	Safe School Crime	18,487	18,487	-
4.51	QZAB Payments	-	-	-
4.52	OPEB Liabilities not Held in Trust	-	-	-
4.53	Unfunded Severance and Retirement Levy	-	-	-
4.59	Basic Skills Extended Time	-	-	-
4.67	Long-term Facilities Maintenance	-	-	-
4.72	Medical Assistance	49,863	49,863	-
4.75	Title VII - Impact Aid	-	-	-
4.76	Payments in Lieu of Taxes	-	-	-
Restricted:				
4.64	Restricted fund balance	-	-	-
Committed:				
4.18	Committed for separation	151,910	151,910	-
4.61	Committed fund balance	-	-	-
Assigned:				
4.62	Assigned fund balance	-	-	-
Unassigned:				
4.22	Unassigned fund balance	658,352	658,355	(3)
02 FOOD SERVICE FUND				
Total revenue		$ 221,041	$ 221,041	$ -
Total expenditures		193,295	193,295	-
Nonspendable:				
4.60	Nonspendable fund balance	3,906	3,906	-
Restricted/reserved:				
4.52	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
4.64	Restricted fund balance	158,172	158,173	(1)
Unassigned:				
4.63	Unassigned fund balance	-	-	-
04 COMMUNITY SERVICE FUND				
Total revenue		$ 217,230	$ 217,228	$ 2
Total expenditures		228,057	228,056	1
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.26	$25 Taconite	-	-	-
4.31	Community Education	66,836	66,836	-
4.32	ECFE	58,435	58,435	-
4.40	Teacher Development and Evaluations	-	-	-
4.44	School Readiness	22,699	22,699	-
4.47	Adult Basic Education	-	-	-
4.52	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
4.64	Restricted fund balance	29,361	29,361	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 BUILDING CONSTRUCTION FUND				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.07	Capital Projects Levy	-	-	-
4.13	Project Funded by COP/LP	-	-	-
4.67	LTFM	-	-	-
Restricted:				
4.64	Restricted fund balance	-	-	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-
07 DEBT SERVICE FUND				
Total revenue		$ 320,601	$ 320,602	$ (1)
Total expenditures		321,624	321,624	-
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.25	Bond refundings	-	-	-
4.33	Maximum effort loan aid	-	-	-
4.51	QZAB payments	-	-	-
Restricted:				
4.64	Restricted fund balance	65,107	65,108	(1)
Unassigned:				
4.63	Unassigned fund balance	-	-	-
08 TRUST FUND				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	-	-	-
18 CUSTODIAL FUND				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.01	Student Activities	-	-	-
4.02	Scholarships	1,864	1,864	-
4.48	Achievement & Integration	-	-	-
4.64	Restricted fund balance	-	-	-
20 INTERNAL SERVICE FUND				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	-	-	-
25 OPEB REVOCABLE TRUST				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	-	-	-
45 OPEB IRREVOCABLE TRUST				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	-	-	-
47 OPEB DEBT SERVICE				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted:				
4.25	Bond refundings	-	-	-
4.64	Restricted fund balance	-	-	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-

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

Independent Auditor's Report

To the School Board
Independent School District No. 2
Hill City, 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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2, Hill City, Minnesota, as of and for the year ending June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2023.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is a 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control, that we consider to be a significant deficiency, Audit Finding 2023-001.

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to the Finding
Government Auditing Standards requires the auditor to perform limited procedures on the District's response(s) to the findings identified in our audit and described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control. The District's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the response.

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

BerganKDV, Ltd.

St. Cloud, Minnesota
December 6, 2023

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 2
Hill City, 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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2, Hill City, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements, and have issued our report thereon dated December 6, 2023.

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 school districts 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
December 6, 2023

Independent School District No. 2
Schedule of Findings and Corrective Action
Plans on Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Significant Deficiency:

Audit Finding 2023-001 – Lack of Segregation of Accounting Duties

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

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

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   Administration will monitor current segregation of accounting duties and provide further segregation, if possible.

3. Official Responsible for Ensuring CAP
   Adam Johnson, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is ongoing.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

APPENDIX B

FORM OF LEGAL OPINION

(See following pages)

Kennedy & Graven
CHARTERED

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Minneapolis, MN 55402
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Affirmative Action, Equal Opportunity Employer

$________
INDEPENDENT SCHOOL DISTRICT NO. 2
(HILL CITY SCHOOL)
AITKIN COUNTY, MINNESOTA
GENERAL OBLIGATION FACILITIES MAINTENANCE AND CAPITAL FACILITIES BONDS
SERIES 2024A

We have acted as bond counsel to Independent School District No. 2 (Hill City School), Aitkin County, Minnesota (the "Issuer"), in connection with the issuance by the Issuer of its General Obligation Facilities Maintenance and Capital Facilities Bonds, Series 2024A (the "Bonds"), originally dated March ___, 2024, and issued in the original aggregate principal amount of $________. In such capacity and for the purpose of rendering this opinion we have examined certified copies of certain proceedings, certifications and other documents, and applicable laws as we have deemed necessary. Regarding questions of fact material to this opinion, we have relied on certified proceedings and other certifications of public officials and other documents furnished to us without undertaking to verify the same by independent investigation. Under existing laws, regulations, rulings, and decisions in effect on the date hereof, and based on the foregoing we are of the opinion that:

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

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

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

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

5. The resolution adopted by the School Board of the Issuer on July 24, 2023, obligates the Issuer to be bound by the provisions of Minnesota Statutes, Section 126C.55. We express no opinion as to the enforceability of the provisions of that law against the State of Minnesota (the "State") in the absence of appropriated and available funds to pay the obligations of the State thereunder.

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

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

Dated ________________, 2024, at Minneapolis, Minnesota.

APPENDIX C

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following pages)

$_________
INDEPENDENT SCHOOL DISTRICT NO. 2
(HILL CITY SCHOOL)
AITKIN COUNTY, MINNESOTA
GENERAL OBLIGATION FACILITIES MAINTENANCE AND CAPITAL FACILITIES BONDS
SERIES 2024A

CONTINUING DISCLOSURE CERTIFICATE

__________, 2024

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 2 (Hill City School), Aitkin County, Minnesota (the "District"), in connection with the issuance of its General Obligation Facilities Maintenance and Capital Facilities Bonds, Series 2024A (the "Bonds"), in the original aggregate principal amount of $_________. The Bonds are being issued pursuant to a resolution adopted by the School Board of the District (the "Resolution"). The Bonds are being delivered to _____________[, as syndicate manager] (the "Purchaser"), on the date hereof. Pursuant to the Resolution, the District has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The District hereby covenants and agrees as follows:

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

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

"Annual Report" means the District's Audited Financial Statements.

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

"Bonds" means the General Obligation Facilities Maintenance and Capital Facilities Bonds, Series 2024A, issued by the District in the original aggregate principal amount of $_______.

"Disclosure Certificate" means this Continuing Disclosure Certificate.

"District" means Independent School District No. 2 (Hill City School), Aitkin County, Minnesota, which is the obligated person with respect to the Bonds.

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

"Final Official Statement" means the Final Official Statement, dated _________, 2024, which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

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

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

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

"GASB" means the Governmental Accounting Standards Board.

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

"Material Event" means any of the events listed in Section 4(a) of this Disclosure Certificate.

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

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

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

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

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

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

Section 3. Provision of Annual Report.

(a) The District shall provide the Annual Report to the Repository not later than twelve (12) months after the end of the Fiscal Year commencing with the year that ends June 30, 2024. The Annual Report may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

The Annual Report may be submitted as a single document or as separate documents comprising a package.

Section 4. Reporting of Material Events.

(a) This Section 4 shall govern the giving of notice of the occurrence of any of the following events ("Material Events") with respect to the Bonds:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

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

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

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

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

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

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

9. Defeasances;

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

11. Rating changes;

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

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

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

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

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

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

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

Section 5. EMMA. The SEC has designated EMMA as a nationally-recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule. Until the EMMA system is amended or altered by the MSRB and the SEC, the District shall make all filings required under this Disclosure Certificate solely with EMMA.

Section 6. Termination of Reporting Obligation. The District's obligations under the Resolution and this Disclosure Certificate shall terminate upon the redemption in full of all Bonds or payment in full of all Bonds.

Section 7. Agent. The District may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Resolution and this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of the Resolution or this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of nationally-recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause a violation of the Rule. The provisions of the Resolution requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate, or any provision hereof, shall be null and void in the event that the District delivers to the Repository an opinion of nationally-recognized bond counsel to the effect that those portions of the Rule which impose the continuing disclosure requirements of the Resolution and the execution and delivery of this Disclosure Certificate are invalid, have been repealed retroactively or otherwise do not apply to the Bonds. The provisions of the Resolution requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate may be amended without the consent of the Holders of the Bonds, but only upon the delivery by the District to the Repository of the proposed amendment and an opinion of nationally-recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect compliance with the Rule.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations under the Resolution and this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default with respect to the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 2 (HILL CITY SCHOOL), AITKIN COUNTY, MINNESOTA

____
Board Chair

____
Clerk

TERMS OF PROPOSAL

$3,790,000* GENERAL OBLIGATION FACILITIES MAINTENANCE AND CAPITAL FACILITIES BONDS, SERIES 2024A INDEPENDENT SCHOOL DISTRICT NO. 2 (HILL CITY), MINNESOTA

Proposals for the purchase of $3,790,000* General Obligation Facilities Maintenance and Capital Facilities Bonds, Series 2024A (the "Bonds") of the Independent School District No. 2 (Hill City), Minnesota (the "District") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, municipal advisors to the District, until 9:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via bondsale@ehlers-inc.com or **PARITY**, in the manner described below, until 9:30 A.M. Central Time, on March 13, 2024, at which time they will be opened, read and tabulated. The proposals will be presented to the School Board for consideration for award by resolution at a meeting to be held at 6:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

AUTHORITY; PURPOSE; SECURITY

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, Minnesota Statutes, Section 123B.595, as amended, and Minnesota Statues, Section 123B.62, as amended, by the District, to provide funds for health and safety and deferred maintenance projects included in the District's ten year facilities plan approved by the Commissioner of Education , capital improvements to district facilities approved be 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 April 4, 2024, will be issued as fully registered Bonds in the denomination of $5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2025	$130,000	2030	$200,000	2035	$255,000
2026	115,000	2031	205,000	2036	265,000
2027	130,000	2032	220,000	2037	275,000
2028	185,000	2033	230,000	2038	570,000
2029	185,000	2034	235,000	2039	590,000

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, 2025, 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 2025 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, Roseville, Minnesota ("BTSC") to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2033 shall be subject to optional redemption prior to maturity on February 1, 2032 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

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

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

DELIVERY

On or about April 4, 2024, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the District will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the District, threatened. Payment for the Bonds must be received by the District at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

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

SUBMISSION OF PROPOSALS

Proposals must not be for less than $3,790,000 plus accrued interest on the principal sum of $3,790,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

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

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

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

A good faith deposit ("Deposit") in the amount of $75,800 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.

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

CONTINUING DISCLOSURE

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

NEW ISSUE PRICING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PRELIMINARY OFFICIAL STATEMENT

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

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the School Board

Independent School District No. 2
(Hill City), Minnesota

PROPOSAL FORM

The School Board **March 13, 2024**
Independent School District No. 2 (Hill City), Minnesota (the "District")

RE: $3,790,000* General Obligation Facilities Maintenance and Capital Facilities Bonds, Series 2024A (the "Bonds")
DATED: April 4, 2024

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 $3,790,000) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

______	% due	2025	______	% due	2030	______	% due	2035
______	% due	2026	______	% due	2031	______	% due	2036
______	% due	2027	______	% due	2032	______	% due	2037
______	% due	2028	______	% due	2033	______	% due	2038
______	% due	2029	______	% due	2034	______	% due	2039

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 2025 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.) 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 $75,800 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal.This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about April 4, 2024.

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

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

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

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

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

Account Manager: ______________________________ By: ______________________________

Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from April 4, 2024 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. 2 (Hill City), Minnesota, on March 13, 2024.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________