

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 18, 2024

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

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 NOT designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Internal Revenue Code of 1986, as amended, which permits financial institutions to deduct interest expenses allocable to the Bonds to the extent permitted under prior law.

Refunding Issue

Rating Application Made: S&P Global Ratings

INDEPENDENT SCHOOL DISTRICT NO. 2687 (HOWARD LAKE-WAVERLY-WINSTED), MINNESOTA (Wright, Carver and McLeod Counties)

(Minnesota School District Credit Enhancement Program)

\$16,340,000* GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS, SERIES 2024A

PROPOSAL OPENING: January 29, 2024, 9:30 A.M., C.T.

CONSIDERATION: Not later than 11:59 P.M., C.T. on January 29, 2024 (PARAMETERS RESOLUTION)

PURPOSE/AUTHORITY/SECURITY: The \$16,340,000* General Obligation School Building Refunding Bonds, Series 2024A (the "Bonds") are authorized pursuant to Minnesota Statutes, Chapter 475, as amended, including Minnesota Statutes, Section 475.67, by Independent School District No. 2687 (Howard Lake-Waverly-Winsted), Minnesota (the "District"), for the purpose of effecting a current refunding of certain outstanding general obligations of the District as more fully described herein. 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:

February 22, 2024

MATURITY:

February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2025	\$440,000	2030	\$645,000	2035	\$2,420,000
2026	460,000	2031	675,000	2036	2,540,000
2027	495,000	2032	375,000	2037	2,640,000
2028	555,000	2033	2,185,000		
2029	610,000	2034	2,300,000		

***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:

August 1, 2024 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:

\$16,176,600.

GOOD FAITH DEPOSIT:

A good faith deposit in the amount of \$326,800 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT:

Bond Trust Services Corporation.

ESCROW AGENT:

Zions Bancorporation, National Association.

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).



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REPRESENTATIONS

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

This Preliminary Official Statement is not to be construed as a contract with the Underwriter (Syndicate Manager). Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the District and other sources for which there is reasonable basis for believing the information is accurate and complete.

Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the District, is contingent upon the delivery of the Bonds.

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

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

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

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

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

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

CLOSING CERTIFICATES

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

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HOWARD LAKE-WAVERLY-WINSTED SCHOOL BOARD

		<u>Term Expires</u>
Michelle Heuer	Board Chair	January 2025
Paul Bravinder	Vice Chair	January 2025
Katie Koch	Clerk	January 2027
Kelsey Puncochar	Treasurer	January 2025
Ben Borrell	Member	January 2027
Brian Marketon	Member	January 2025
Shannah Mulvihill	Member	January 2027

ADMINISTRATION

Nate Walbruch, Superintendent of Schools

Megan Tormanen, Business Manager

PROFESSIONAL SERVICES

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. 2687 (Howard Lake-Waverly-Winsted), Minnesota (the "District") and the issuance of its \$16,340,000* General Obligation School Building Refunding 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 ("Ratifying Resolution").

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 February 22, 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 August 1, 2024, 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 Ratifying Resolution.

The District has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC") to act as paying agent (the "Paying Agent") and Zions Bancorporation, National Association, Chicago, Illinois, to act as escrow agent (the "Escrow Agent"). BTSC and Ehlers are affiliate companies. The District will pay the charges for Paying Agent and Escrow Agent services. The District reserves the right to remove the Paying Agent and/or Escrow 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 authorized pursuant to Minnesota Statutes, Chapter 475, as amended, including Minnesota Statutes, Section 475.67, by the District, for the purpose of effecting a current refunding of the District's \$21,315,000 General Obligation School Building Bonds, Series 2014A (the "Series 2014A Bonds") as follows:

Issue Being Refunded	Date of Refunded Issue	Call Date	Call Price	Maturities Being Refunded	Interest Rates	Principal to be Refunded	CUSIP Base 442717
Series 2014A Bonds	1/29/14	3/26/24	Par	2025	4.000%	\$425,000	BU7
				2026	4.000%	445,000	BV5
				2027	4.000%	455,000	BW3
				2028	4.000%	480,000	BX1
				2029	4.000%	495,000	BY9
				2030	4.000%	520,000	BZ6
				2031	4.000%	545,000	CA0
				2032	4.000%	575,000	CB8
				2033	4.000%	2,530,000	CC6
				2034	4.100%	2,660,000	CD4
				2035	4.125%	2,790,000	CE2
				2036	4.200%	2,930,000	CF9
				2037	4.250%	<u>3,075,000</u>	CG7
Total Series 2014A Bonds Being Refunded						<u>\$17,925,000</u>	

Proceeds of the Bonds will be used to call and prepay the maturities of the Series 2014A Bonds described above and to pay all or most of the costs of issuance.

ESTIMATED SOURCES AND USES*

Sources

Par Amount of Bonds	\$16,340,000	
Reoffering Premium	<u>1,854,687</u>	
Total Sources		\$18,194,687

Uses

Total Underwriter's Discount (0.800%)	\$130,720	
Costs of Issuance	112,000	
Deposit to Redemption Fund	17,948,060	
Rounding Amount	<u>3,907</u>	
Total Uses		\$18,194,687

*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. In the event funds on hand for payment of principal and interest are at any time insufficient, the District is required to levy additional taxes upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

RATING

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

The District currently has an "A" underlying rating from S&P 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 September 25, 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, the District shall execute and deliver a Continuing Disclosure Certificate, under which the District will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the District are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

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

In the previous five years, the District believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The District has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the District.

LEGAL OPINION

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

TAX EXEMPTION

On the date of issuance of the Bonds, Bond Counsel will render an opinion that, at the time of issuance and delivery of the Bonds to the original purchaser, based on present federal and State of Minnesota laws, regulations, rulings and decisions (which exclude any pending legislation which may have a retroactive effect), and assuming compliance with certain covenants set forth in the Ratifying 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 Ratifying Resolution may result in the inclusion of interest on the Bonds in gross income (for federal tax purposes) and taxable net income (for State of Minnesota tax purposes) of the owners thereof. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to United States or State of Minnesota income taxation.

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

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

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

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

Legislative proposals

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

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will NOT designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code, relating to the ability of certain financial institutions (within the meaning of Section 265(6)(5) of the Code) to deduct from income for federal income tax purposes, 80% of the interest expense that is allocable to carrying and acquiring tax-exempt obligations.

MUNICIPAL ADVISOR

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

MUNICIPAL ADVISOR AFFILIATED COMPANIES

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

INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 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 are general obligations of the District, the ultimate payment of which rests in the District's ability to levy and collect sufficient taxes to pay debt service should other revenue (state aids) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the District in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state 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 Ratifying Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

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

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

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

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

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

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

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

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

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

VALUATIONS

OVERVIEW

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

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

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

Type of Property	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%

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 \$1,745,524,422¹

2022/23 Assessor's Estimated Market Value

	Wright County	Carver County	McLeod County	Total
Real Estate	\$1,195,131,600	\$8,526,900	\$347,321,800	\$1,550,980,300
Personal Property	<u>8,436,400</u>	<u>0</u>	<u>4,039,000</u>	<u>12,475,400</u>
Total Valuation	<u>\$1,203,568,000</u>	<u>\$8,526,900</u>	<u>\$351,360,800</u>	<u>\$1,563,455,700</u>

2022/23 Net Tax Capacity

	Wright County	Carver County	McLeod County	Total
Real Estate	\$10,768,396	\$61,528	\$3,714,738	\$14,544,662
Personal Property	<u>167,191</u>	<u>0</u>	<u>67,307</u>	<u>234,498</u>
Net Tax Capacity	\$10,935,587	\$61,528	\$3,782,045	\$14,779,160
Less: Captured Tax Increment Tax Capacity ²	(329,610)	0	(99,594)	(429,204)
Power Line Adjustment ³	<u>(268)</u>	<u>0</u>	<u>0</u>	<u>(268)</u>
Taxable Net Tax Capacity	\$10,605,709	\$61,528	\$3,682,451	\$14,349,688
Plus: Fiscal Disparities Distribution ⁴	<u>0</u>	<u>2,786</u>	<u>0</u>	<u>2,786</u>
Adjusted Taxable Net Tax Capacity	<u>\$10,605,709</u>	<u>\$64,314</u>	<u>\$3,682,451</u>	<u>\$14,352,474</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the District is about 89.76% 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 \$1,745,524,422.

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

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

⁴ Each community in the seven-county metropolitan area contributes 40% of the growth in its commercial-industrial property tax base since 1972 to an area pool which is then distributed among the municipalities on the basis of population, special needs, etc. Each governmental unit makes a contribution and receives a distribution--sometimes gaining and sometimes contributing net tax capacity for tax purposes.

2022/23 NET TAX CAPACITY BY CLASSIFICATION

	2022/23 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$7,723,559	52.26%
Agricultural	3,003,698	20.32%
Commercial/industrial	2,015,821	13.64%
Public utility	69,068	0.47%
Railroad operating property	92,058	0.62%
Non-homestead residential	1,237,081	8.37%
Commercial & residential seasonal/rec.	403,377	2.73%
Personal property	<u>234,498</u>	<u>1.59%</u>
Total	<u><u>\$14,779,160</u></u>	<u><u>100.00%</u></u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity¹	Adjusted Taxable Net Tax Capacity²	Percent Increase/Decrease in Estimated Market Value
2018/19	\$1,110,790,300	\$1,032,215,200	\$10,180,171	\$9,887,828	7.80%
2019/20	1,171,563,400	1,088,958,700	10,790,590	10,487,972	5.47%
2020/21	1,230,922,600	1,146,854,600	11,423,127	11,095,995	5.07%
2021/22	1,304,347,000	1,219,893,900	12,097,714	11,694,474	5.97%
2022/23	1,563,455,700	1,458,019,720	14,779,160	14,352,474	19.87%

¹ Net Tax Capacity is before fiscal disparities adjustments and includes tax increment and power line values.

² Adjusted Taxable Net Tax Capacity is after fiscal disparities adjustments and does not include tax increment or power line values.

LARGEST TAXPAYERS

Taxpayer	Type of Property	2022/23 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Forsman Farms, Inc.	Industrial	\$214,209	1.45%
Millerbread Real Est Holdings	Industrial	139,396	0.94%
551 4 th St N, LLC	Industrial	129,844	0.88%
Kodiak Land, LLC	Commercial	96,350	0.65%
Howard Lake Properties, LLC	Industrial	95,294	0.64%
BNSF Railway Company	Railroad	92,781	0.63%
Tetra Pak Processing Equipment, Inc.	Industrial	74,514	0.50%
Xcel Energy	Utility	66,499	0.45%
Store Master Funding XV, LLC	Commercial	57,058	0.39%
Brose Land, LLP	Agricultural	<u>56,599</u>	<u>0.38%</u>
Total		\$1,022,544	6.92%

District's Total 2022/23 Net Tax Capacity \$14,779,160

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

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedule following)

Total G.O. debt secured by taxes and state aids² (includes the Bonds)* \$30,327,000

Lease Purchase Obligations (see schedule following)

Total lease purchase obligations paid by annual appropriations³ \$3,594,001

*Preliminary, subject to change.

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

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

³ Non-general obligation debt has not been included in the debt ratios.

Other Obligations - Cooperative District/Joint Governmental Obligations

The District is a member of Wright Technical Center No. 966. On March 21, 2018, Wright Technical Center No. 966 issued \$1,515,282 2018 Lease Purchase Refunding, and on October 25, 2018, issued its \$650,000 Facilities Maintenance Bonds, Series 2018A. The District has a contractual obligation to make a portion of the debt service payments on both issues.

DEBT PAYMENT HISTORY

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

FUTURE FINANCING

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

STATE AID FOR DEBT SERVICE

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

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

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

Some school districts will also receive aid for debt service payments through the state School Building Bond Agricultural Credit, which is paid to school districts to offset a portion of certain bond levies (Minnesota Statutes, Section 273.1387). The reimbursement percentage is 70% for taxes payable in 2023, and thereafter. 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 10.22% of total annual debt service levies, based on the District's 2022/23 qualifying agricultural land valuation.

BONDED DEBT LIMIT

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

2022/23 Economic Market Value	\$1,745,524,422
Multiply by 15%	<u>0.15</u>
Statutory Debt Limit	\$261,828,663
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(30,327,000)
Less: Long-Term Debt Outstanding Being Paid Solely from Annual Appropriations (applies to issues in excess of \$1,000,000 originally issued after 6/1/97 which do not have revenues pledged)	<u>(3,107,141)</u>
Unused Debt Limit*	<u><u>\$228,394,522</u></u>

*Preliminary, subject to change.

Independent School District No. 2687 (Howard Lake-Waverly-Winsted), Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 02/22/2024)

	School Building Refunding Bonds Series 2014B		Facilities Maintenance Bonds Series 2017A		Capital Notes Series 2021A		School Building Refunding Bonds 1) Series 2024A							
Dated Amount	12/30/2014 \$22,360,000		03/09/2017 \$1,345,000		12/29/2021 \$525,000		02/22/2024 \$16,340,000*							
Maturity	02/01		02/01		02/01 & 08/01		02/01							
Fiscal Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2025	1,410,000	380,781	95,000	24,840	58,000	6,109	440,000	720,563	2,003,000	1,132,293	3,135,293	28,324,000	6.60%	2025
2026	1,450,000	338,481	100,000	22,798	58,000	5,326	460,000	743,200	2,068,000	1,109,805	3,177,805	26,256,000	13.42%	2026
2027	1,500,000	294,981	110,000	20,648	60,000	4,536	495,000	720,200	2,165,000	1,040,365	3,205,365	24,091,000	20.56%	2027
2028	1,540,000	249,981	120,000	17,953	60,000	3,726	555,000	695,450	2,275,000	967,110	3,242,110	21,816,000	28.06%	2028
2029	1,590,000	203,781	125,000	15,013	61,000	2,916	610,000	667,700	2,386,000	889,410	3,275,410	19,430,000	35.93%	2029
2030	1,635,000	156,081	135,000	11,700	62,000	2,086	645,000	637,200	2,477,000	807,067	3,284,067	16,953,000	44.10%	2030
2031	1,685,000	107,031	140,000	8,123	63,000	1,249	675,000	604,950	2,563,000	721,353	3,284,353	14,390,000	52.55%	2031
2032	1,740,000	54,375	145,000	4,133	45,000	304	375,000	571,200	2,305,000	630,011	2,935,011	12,085,000	60.15%	2032
2033							2,185,000	552,450	2,185,000	552,450	2,737,450	9,900,000	67.36%	2033
2034							2,300,000	443,200	2,300,000	443,200	2,743,200	7,600,000	74.94%	2034
2035							2,420,000	328,200	2,420,000	328,200	2,748,200	5,180,000	82.92%	2035
2036							2,540,000	207,200	2,540,000	207,200	2,747,200	2,640,000	91.29%	2036
2037							2,640,000	105,600	2,640,000	105,600	2,745,600	0	100.00%	2037
	12,550,000	1,785,494	970,000	125,205	467,000	26,251	16,340,000	6,997,113	30,327,000	8,934,063	39,261,063			

* Preliminary, subject to change.

1) This issue will refund the 2024 through 2037 maturities of the District's \$21,315,000 General Obligation School Building Bonds, Series 2014A dated January 29, 2014.

Independent School District No. 2687 (Howard Lake-Waverly-Winsted), Minnesota
Schedule of Bonded Indebtedness
Non-General Obligation Debt Secured by Annual Appropriation
(As of 02/22/2024)

	Renovation & Building Addition 2015		Building Addition 2020		Building Addition 1) 2021							
Dated	05/19/2015		11/20/2020		12/09/2021							
Amount	\$2,962,500		\$1,927,100		\$590,700							
Maturity	04/01 & 10/01		04/01 & 10/01		02/01 & 08/01							
Fiscal Year												
Ending	Principal	Interest	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2024	101,198	20,593	56,856	22,156	0	0	158,053	42,748	200,801	3,435,948	4.40%	2024
2025	206,773	36,808	115,981	42,041	55,257	12,879	378,011	91,728	469,739	3,057,937	14.92%	2025
2026	212,750	30,831	119,075	38,947	56,771	11,365	388,596	81,143	469,739	2,669,341	25.73%	2026
2027	218,899	24,681	122,252	35,771	58,327	9,809	399,478	70,261	469,739	2,269,863	36.84%	2027
2028	225,227	18,353	125,513	32,510	59,925	8,210	410,665	59,074	469,739	1,859,198	48.27%	2028
2029	231,737	11,843	128,861	29,162	61,568	6,568	422,166	47,573	469,739	1,437,033	60.02%	2029
2030	238,436	5,145	132,298	25,724	63,255	4,881	433,989	35,750	469,739	1,003,044	72.09%	2030
2031			135,827	22,195	64,988	3,147	200,816	25,342	226,158	802,228	77.68%	2031
2032			139,451	18,572	66,769	1,366	206,220	19,938	226,158	596,008	83.42%	2032
2033			143,171	14,852			143,171	14,852	158,023	452,837	87.40%	2033
2034			146,990	11,033			146,990	11,033	158,023	305,847	91.49%	2034
2035			150,911	7,112			150,911	7,112	158,023	154,936	95.69%	2035
2036			154,936	3,086			154,936	3,086	158,023	0	100.00%	2036
	1,435,020	148,253	1,672,122	303,160	486,860	58,224	3,594,001	509,638	4,103,639			

1) This issue is not subject to the debt limit.

OVERLAPPING DEBT¹

Taxing District	2022/23 Adjusted Taxable Net Tax Capacity	% In District	Total G.O. Debt ²	District's Proportionate Share
Counties of:				
Carver	\$221,610,364	0.0290%	\$13,539,000	\$3,926
McLeod	53,476,476	6.8861%	14,285,000	983,679
Wright	239,018,528	4.4372%	75,065,000	3,330,784
Cities of:				
Howard Lake	2,238,609	100.0000%	2,030,000	2,030,000
Waverly	2,615,699	100.0000%	483,000	483,000
Winsted	2,672,751	99.9984%	805,000	804,987
Special District of:				
Metropolitan Council	5,878,109,833	0.0011%	238,225,000 ³	<u>\$2,620</u>
District's Share of Total Overlapping Debt				<u><u>\$7,638,997</u></u>

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

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

³ The above debt includes all outstanding general obligation debt supported by taxes of the Metropolitan Council. The Council also has general obligation wastewater revenue, grant anticipation notes and certificates of participation outstanding all of which are supported entirely by revenues and have not been included in the overlapping debt or debt ratios sections.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value \$1,745,524,422	Debt/ Per Capita 9,863¹
Direct G.O. Debt Secured By Taxes and State Aids*	\$30,327,000		
Less: Agricultural Credit ²	<u>(3,099,419)</u>		
Tax Supported General Obligation Debt*	\$27,227,581	1.56%	\$2,760.58
District's Share of Total Overlapping Debt	<u>\$7,638,997</u>	<u>0.44%</u>	<u>\$774.51</u>
Total*	<u><u>\$34,866,578</u></u>	<u><u>2.00%</u></u>	<u><u>\$3,535.09</u></u>

*Preliminary, subject to change.

TAX LEVIES, COLLECTION AND RATES

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy³	Total Collected Following Year	Collected to Date	% Collected
2018/19	\$4,368,633	\$4,328,488	\$4,367,191	99.97%
2019/20	4,580,411	4,533,223	4,576,025	99.90%
2020/21	4,694,858	4,652,666	4,687,440	99.84%
2021/22	4,646,469	4,613,174	4,633,244	99.72%
2022/23	5,954,676	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.⁴ Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

¹ Estimated 2022 population.

² Based on current State law and statistics, the State of Minnesota is estimated to pay approximately 10.22% 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 \$3,099,419.

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

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

TAX CAPACITY RATES¹

	2018/19	2019/20	2020/21	2021/22	2022/23
I.S.D. No. 2687 (Howard Lake-Waverly-Winsted)	36.747%	35.880%	35.536%	33.106%	27.345%
Carver County	36.488%	35.179%	34.634%	34.170%	29.267%
McLeod County	58.045%	59.967%	58.706%	57.669%	50.725%
Wright County	44.273%	44.421%	43.719%	43.751%	37.848%
City of Howard Lake	70.532%	70.889%	72.596%	67.661%	62.009%
City of Waverly	69.011%	64.252%	60.997%	57.262%	44.630%
City of Winsted	72.041%	73.628%	74.659%	76.356%	65.569%
Town of Victor ²	20.803%	22.792%	21.895%	21.185%	19.253%
Carver County CDA	1.626%	1.598%	1.664%	1.635%	1.396%
Carver County Rail Authority	0.104%	0.101%	0.099%	0.110%	0.088%
Carver County WMO	0.927%	0.893%	0.875%	0.859%	0.731%
Metropolitan Council (portion applicable to Carver County)	0.650%	0.590%	0.628%	0.637%	0.544%
Mid-Minnesota Development (portion applicable to McLeod County)	0.203%	0.206%	0.208%	0.208%	0.180%
Mosquito Control (portion applicable to Carver County)	0.423%	0.395%	0.382%	0.365%	0.313%

Referendum Market Value Rates:

I.S.D. No. 2687 (Howard Lake-Waverly-Winsted)	0.13512%	0.14060%	0.12650%	0.11887%	0.09495%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Wright, Carver and McLeod Counties.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 202, including 92 non-licensed employees and 110 licensed employees (103 of whom are teachers). The District provides education for 1,287 students in grades kindergarten through twelve.

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

² Representative town rate.

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
Education Minnesota Howard Lake-Waverly-Winsted MESA	June 30, 2023
Howard Lake-Waverly-Winsted Principals' Association	June 30, 2024
School Service Employees Local #284 (Custodial)	June 30, 2024
Public Employees' Retirement Association of Minnesota	June 30, 2024

Status of Contract

The contract which expired on June 30, 2023 is currently in negotiations.

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) study shows a total OPEB liability of \$435,666 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	92	588	574	1,254
2020/21	82	545	563	1,190
2021/22	98	544	589	1,231
2022/23	97	566	619	1,282
2023/24	97	584	606	1,287

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2024/25	98	572	627	1,297
2025/26	98	574	618	1,290
2026/27	98	582	618	1,298

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
High School	2008	--
Middle School/MAWSECO Sped Coop	1930	1947, 1954, 1963, 1966, 1977, 2016
Humphrey Elementary	1955	2007
Winsted Elementary	1964	2007, 2011, 2022
Middle School	2015	--

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 June 30, 2023)

Fund	Total Cash and Investments
General	\$560,641
Food Service	395,132
Community Service	(80,101)
Debt Service	620,319
Building/Construction	<u>8,533</u>
 Total Funds on Hand	 <u><u>\$1,504,524</u></u>

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 District's 2023 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING JUNE 30				2023-24 Adopted Budget ¹
	2020 Audited	2021 Audited	2022 Audited	2023 Audited	
Revenues					
Local property taxes	\$1,635,064	\$1,801,628	\$1,935,688	\$1,977,804	\$1,603,119
Other local and county revenues	1,108,386	920,146	1,129,723	1,399,446	1,213,366
Revenues from state sources	12,044,763	12,103,259	12,375,342	13,275,810	14,434,830
Revenues from federal sources	238,054	1,152,949	1,058,810	399,360	280,114
Sales and other conversion of assets	0	27	0	0	0
Total Revenues	<u>\$15,026,267</u>	<u>\$15,978,009</u>	<u>\$16,499,563</u>	<u>\$17,052,420</u>	<u>\$17,531,429</u>
Expenditures					
Current:					
Administration	\$582,285	\$593,572	\$626,477	\$603,955	\$665,952
District support services	649,726	494,336	603,591	649,538	679,968
Elementary & secondary regular instruction	6,457,609	6,865,812	7,197,506	7,762,106	7,679,343
Vocational education instruction	357,789	390,483	400,326	490,538	451,146
Special education instruction	2,474,349	2,690,735	2,613,501	2,766,059	3,002,692
Instructional support services	386,974	785,402	521,409	558,306	615,262
Pupil support services	1,619,987	1,792,413	2,095,844	2,384,400	2,188,462
Sites and buildings	1,685,653	1,716,612	1,595,160	1,768,170	1,893,941
Fiscal and other fixed cost programs	94,819	95,935	101,518	111,131	112,000
Community service	0	0	0	644	0
Capital outlay	267,675	269,488	251,765	178,609	0
Debt service	243,580	243,581	443,604	512,440	401,634
Total Expenditures	<u>\$14,820,446</u>	<u>\$15,938,369</u>	<u>\$16,450,701</u>	<u>\$17,785,896</u>	<u>\$17,690,400</u>
Excess of revenues over (under) expenditures	\$205,821	\$39,640	\$48,862	(\$733,476)	(\$158,971)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	\$0	\$0	\$2,500	\$0	\$0
Transfers out	0	0	0	0	0
Total Other Financing Sources (Uses)	<u>\$0</u>	<u>\$0</u>	<u>\$2,500</u>	<u>\$0</u>	<u>\$0</u>
Net changes in Fund Balances	\$205,821	\$39,640	\$51,362	(\$733,476)	(\$158,971)
General Fund Balance July 1	\$941,900	\$1,203,115	\$1,242,755	\$1,294,117	
Prior Period Adjustment	55,394	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance June 30	<u>\$1,203,115</u>	<u>\$1,242,755</u>	<u>\$1,294,117</u>	<u>\$560,641</u>	
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	\$47,306	\$37,088	\$14,518	\$8,145	
Restricted	145,849	192,204	136,225	168,798	
Assigned	3,426	3,271	5,750	5,750	
Unassigned	1,006,534	1,010,192	1,137,624	377,948	
Total	<u>\$1,203,115</u>	<u>\$1,242,755</u>	<u>\$1,294,117</u>	<u>\$560,641</u>	

¹ The 2023-24 budget was adopted on June 26, 2023.

GENERAL INFORMATION

LOCATION

The District, with a 2020 U.S. Census population of 9,437 and a 2022 population estimate of 9,863, and comprising an area of 115 square miles, is located approximately 50 miles west of St. Paul, Minnesota.

LARGER EMPLOYERS¹

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Dura Supreme	Custom cabinetry manufacture	500
Millerbernd Manufacturing	Steel lighting poles manufacturer	300
The District	Elementary and secondary education	202
Littfin Lumber Company	Lumber manufacturers	183
The Gardens at Winsted	Nursing home and assisted living	140
Tetra Pak	Food processing and carton packaging	120
Waste Management	Garbage collection	85
American Spirit Mail Solutions	Direct mail provider	80
Telcom Construction	Utility contractors	80
New Beginnings at Waverly	Addiction treatment center	70

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

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

U.S. CENSUS DATA

Population Trend: The District

2010 U.S. Census population	8,757
2020 U.S. Census population	9,437
Percent of Change 2010 - 2020	7.77%
2022 State Demographer Estimate	9,863

Income and Age Statistics

	The District	Wright County	State of Minnesota	United States
2022 per capita income	\$40,885	\$43,067	\$44,947	\$41,261
2022 median household income	\$84,330	\$102,980	\$84,313	\$75,149
2022 median family income	\$106,389	\$118,209	\$107,072	\$92,646
2022 median gross rent	\$883	\$1,149	\$1,178	\$1,268
2022 median value owner occupied units	\$254,100	\$310,900	\$286,800	\$281,900
2022 median age	41.7 yrs.	37.4 yrs.	38.5 yrs.	38.5 yrs.

	State of Minnesota	United States
District % of 2022 per capita income	90.96%	99.09%
District % of 2022 median family income	99.36%	114.83%

Source: 2010 and 2020 Census of Population and Housing, and 2022 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (<https://data.census.gov>) and Minnesota State Demographer (<https://mn.gov/admin/demography/data-by-place/school-district-data.jsp>).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>	<u>Average Unemployment</u>	
	Wright County	Wright County	State of Minnesota
2019	74,446	3.3%	3.3%
2020	73,074	5.6%	6.3%
2021	72,443	3.5%	3.8%
2022	74,540	2.6%	2.7%
2023, November	75,104	1.8%	1.9%

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

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

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

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

Basic Financial Statements

June 30, 2023

Independent School District No. 2687
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**Independent School District No. 2687
Board of Education and Administration
June 30, 2023**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Michelle Heuer	Chairperson	December 31, 2024
Paul Bravinder	Vice Chairperson	December 31, 2024
Katie Koch	Clerk	December 31, 2026
Kelsey Puncochar	Treasurer	December 31, 2024
Shannah Mulvihill	Director	December 31, 2026
Ben Borrell	Director	December 31, 2026
Brian Marketon	Director	December 31, 2024
 <u>Administration</u>		
Brad Sellner	Superintendent	

Independent Auditor's Report

To the School Board
Independent School District No. 2687
Howard Lake-Waverly-Winsted, Minnesota

Report on the Audit of the Financial Statements

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2687, Howard Lake-Waverly-Winsted, Minnesota, as of and for the year ended June 30, 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. 2687, 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. 2687 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, 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.

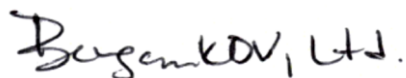
Supplementary Information

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. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also 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 and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 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.



St. Cloud, Minnesota
November 7, 2023

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

This section of Independent School District No. 2687's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

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

FINANCIAL HIGHLIGHTS – 2022-23

- Governmental operating fund revenues were \$18,860,091, while governmental operating fund expenditures totaled \$19,759,490, resulting in a net change in fund balances of (\$899,399). These amounts do not include the Building Construction Fund or the Debt Service Fund.
- The Unassigned Fund Balance decreased \$759,676 in the General Fund and ended the year with a balance of \$377,948. The 2022-2023 school year was more normal than the previous years when the COVID-19 pandemic negatively affected enrollment and activities, and the 2022-23 enrollment was stronger than had been anticipated prior to the year starting. The school district had remaining federal funding which was allocated to help schools recover from lower revenue during the pandemic. The federal grants received and used for the 2022-23 school year were \$160,607. The funds were earmarked for additional programming to address learning loss or for certain other purposes. About \$25,500 of federal funds is available to be used in the 2023-24 school year. These funds have restricted uses and any expenses must be preapproved by MDE.
- The General Fund has other fund balance components besides the unassigned, and these include *restricted* and *assigned* fund balances. Compared to June 30, 2022, the *total* fund balance in the General Fund is lower by \$733,476. The nonspendable fund balance decreased by \$6,373. The restricted amount includes an increase in student activity funds of \$13,873; the operating capital fund balance decreased by \$246; and LTFM increased by \$18,948.
- The Food Service Fund balance decreased \$117,915 and has a fund balance of \$395,132. The decrease is due to the change from free meals that were reimbursed by the Federal Government to families having to pay for meals. Additional funds were used to help retain good staff and repair equipment at each building, as needed.
- The Community Service Fund balance decreased by \$48,008 and has a total fund balance of (\$80,101). The Community Service Fund program is continuing to rebound from the effects of the pandemic and less participation in class offerings, but some new programs and an all-day childcare program have been added. The hope is to boost the fund balance in future years as the programs build.
- Bonded indebtedness principal was paid in the amount of \$1,770,000.

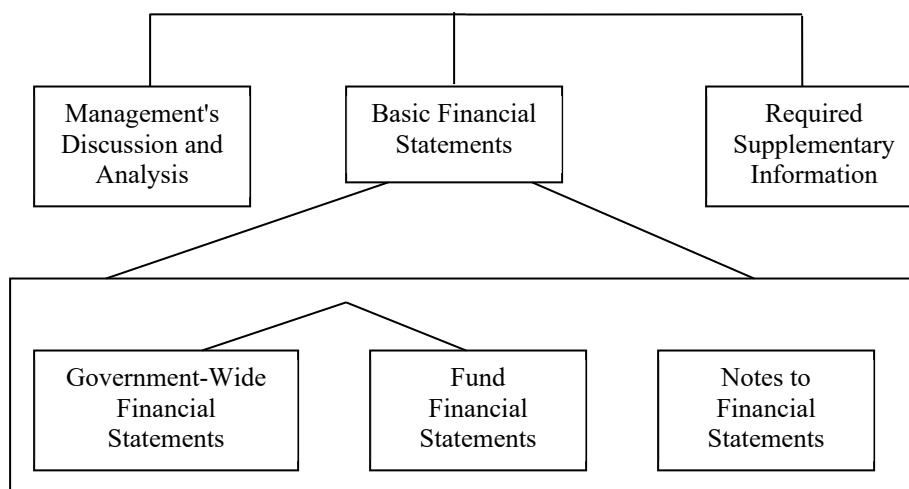
Independent School District No. 2687 Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



Summary < ----- > Detail

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Government-Wide Statements

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

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

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

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

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

Fund Financial Statements

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

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

The District has one kind of fund:

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

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

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

Net Position

The District's combined net position was (\$2,949,962) on June 30, 2023 (see details in Table A-1). This increased from (\$4,978,036) as of June 30, 2022.

Table A-1

	June 30,	
	2023	2022
Assets and Deferred Outflows of Resources		
Current and other assets	\$ 8,154,207	\$ 9,460,540
Capital assets	44,747,620	45,644,474
Deferred outflows of resources	3,609,882	4,283,221
	<u>\$ 56,511,709</u>	<u>\$ 59,388,235</u>
 Liabilities and Deferred Inflows of Resources		
Current liabilities	\$ 4,632,522	\$ 4,497,496
Long-term liabilities	47,923,134	45,203,265
Deferred inflows of resources	6,906,015	14,665,510
	<u>\$ 59,461,671</u>	<u>\$ 64,366,271</u>
 Net Position		
Net investment in capital assets	\$ 6,440,774	\$ 5,535,032
Restricted	704,319	795,279
Unrestricted	(10,095,055)	(11,308,347)
	<u>\$ (2,949,962)</u>	<u>\$ (4,978,036)</u>

Change in Net Position

The increase in net position occurred as a result of the District's revenues being more than its expenses for the fiscal year ended June 30, 2023. A summary of the revenue and expenses is presented in Table A-2 on the following page.

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

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

Change in Net Position (Continued)

Table A-2

	June 30,	
	2023	2022
Revenues		
Program revenues		
Charges for services	\$ 1,458,501	\$ 903,355
Operating grants and contributions	4,606,894	5,412,508
Capital grants and contributions	528,476	520,248
General revenues		
Property taxes	4,760,781	4,685,373
Aids and payments from state and other	10,382,357	9,675,692
Other sources	196,188	112,190
Total revenues	<u>21,933,197</u>	<u>21,309,366</u>
Expenses		
Administration	495,970	591,893
District support services	635,719	587,492
Regular instruction	6,469,071	7,046,832
Vocational education instruction	408,719	393,650
Special education instruction	2,443,054	2,521,499
Instructional support services	674,454	696,687
Pupil support services	2,318,994	2,093,436
Sites and buildings	3,100,833	2,853,045
Fiscal and other fixed costs	111,131	101,518
Food service	1,150,426	908,360
Community service	783,078	651,619
Interest and fiscal charges on long-term liabilities	1,313,674	1,397,085
Total expenses	<u>19,905,123</u>	<u>19,843,116</u>
Change in net position	2,028,074	1,466,250
Net Position		
Beginning	<u>(4,978,036)</u>	<u>(6,444,286)</u>
Ending	<u>\$ (2,949,962)</u>	<u>\$ (4,978,036)</u>

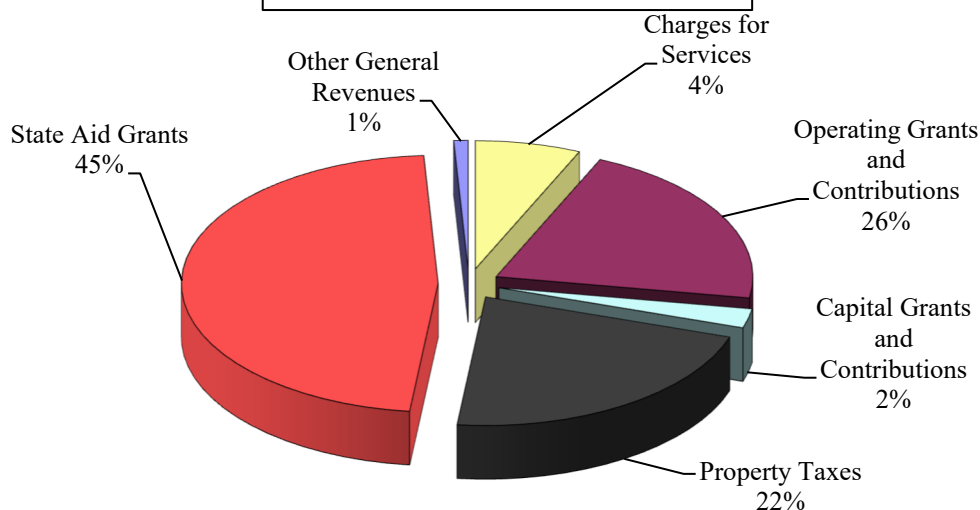
**Independent School District No. 2687
Management's Discussion and Analysis**

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

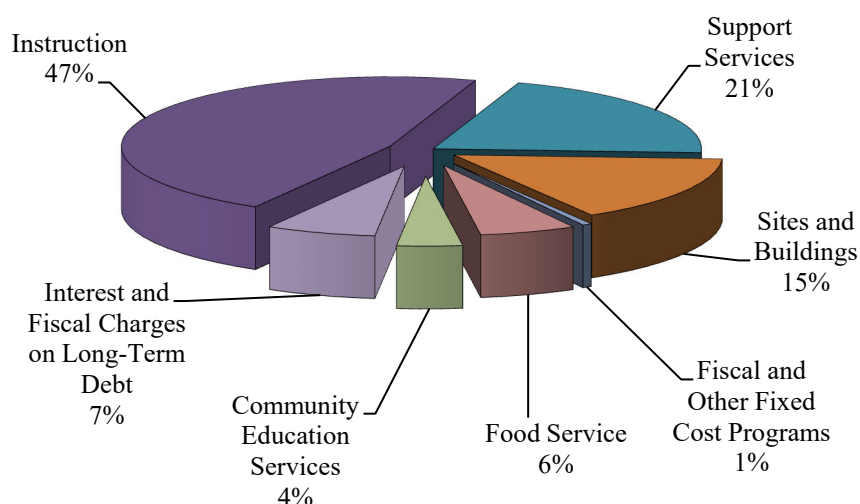
Change in Net Position (Continued)

The District's total revenue consisted of program revenues of \$6,593,871; property taxes of \$4,760,781; payments from the state aids of \$10,382,357; and \$196,188 from miscellaneous other sources. Expenses totaling \$19,905,123 consisted mainly of regular, vocational, and special instruction costs of \$9,367,626. Other areas of cost included: support services (District, administrative, instructional, and pupil) of \$4,078,355; sites, buildings, and equipment of \$3,100,833; fiscal and other fixed cost programs of \$111,131; food service of \$1,150,426; community education services of \$783,078; and interest and fiscal charges on long-term debt of \$1,313,674.

**Table A-3
Sources of Revenues for 2022-2023**



**Table A-4
Expenses for Fiscal Year 2022-2023**



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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

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

Table A-5

	June 30, 2023		June 30, 2022	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Administration	\$ 495,970	\$ (495,970)	\$ 591,893	\$ (591,893)
District support services	635,719	(635,719)	587,492	(587,492)
Regular instruction	6,469,071	(4,561,615)	7,046,832	(4,844,633)
Vocational education instruction	408,719	(388,391)	393,650	(353,795)
Special education instruction	2,443,054	(259,782)	2,521,499	(562,173)
Instructional support services	674,454	(417,597)	696,687	(446,083)
Pupil support services	2,318,994	(2,239,899)	2,093,436	(1,915,274)
Sites and buildings	3,100,833	(2,613,711)	2,853,045	(2,384,055)
Fiscal and other fixed costs	111,131	(111,131)	101,518	(101,518)
Food service	1,150,426	(122,508)	908,360	311,810
Community service	783,078	(151,255)	651,619	(134,814)
Interest and fiscal charges on long-term liabilities	1,313,674	(1,313,674)	1,397,085	(1,397,085)
Total	<u>\$ 19,905,123</u>	<u>\$ (13,311,252)</u>	<u>\$ 19,843,116</u>	<u>\$ (13,007,005)</u>

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,504,524. This is a decrease of \$1,337,859 from the June 30, 2022, combined fund balance total, which was \$2,842,383. The decrease is mostly due to the increased cost of fuel, transportation, and utilities.

Revenue and Expenditures

Revenues of the District's governmental funds totaled \$21,926,392, while total expenditures were \$23,264,251. The expenditures included \$3,071,354 in bond and interest payments. The revenue and expenses are higher due to the additional funding from the federal government and extra costs due to the increased cost of supplies and services. A summary of the revenues and expenditures reported on the governmental fund financial statements follows.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Revenue and Expenditures (Continued)

**Table A-6
Revenues and Expenditures - Governmental Funds**

	Revenue	Expenditures	Excess of Revenues Over (Under) Expenditures
General	\$ 17,052,420	\$ 17,785,896	\$ (733,476)
Food service	1,031,878	1,149,793	(117,915)
Community service	775,793	823,801	(48,008)
Building construction	-	433,407	(433,407)
Debt service	3,066,301	3,071,354	(5,053)
Total	<u>\$ 21,926,392</u>	<u>\$ 23,264,251</u>	<u>\$ (1,337,859)</u>

Fund Budgetary Highlights

During the year ended June 30, 2023, the District revised its operating budget one time. A revision is always necessary since when the initial budget is prepared and adopted (a budget must be in place prior to the beginning of the fiscal year on July 1), details of student enrollments, staffing levels, and other significant information items are estimates. When these items become known, the budget is then revised. A similar revision is made each year for the same reasons.

General Fund – The District's final General Fund budget projected expenditures would exceed revenues by \$641,656. The actual result was \$733,476 expenditures over revenues. The District ended the year with higher ADM's than projected, but expenses were higher overall than was projected at the time the revised budget was approved. Costs were higher mainly in the areas of fuel, transportation, utilities, and snow removal. Student PSEO costs were also higher than budgeted.

Food Service Fund – The Food Service Fund saw a decrease of \$117,915 in the fund balance. The federal government mandated free meals to students in the 2021-22 school year, and districts were reimbursed for the meals through the government program. The free meal program did not carry through to 2022-23 and families had to pay for meals. This resulted in fewer meals and less reimbursement. The goal in the food service area is to at least break even, but with the large fund balance the district was able to increase pay to retain quality staff and repair equipment as needed at each building.

Community Service Fund – The fund balance in the Community Service Fund decreased by \$48,008. Community Education programs are trying to rebuild after being affected by COVID-19 as well as having a new director and new ECFE coordinator. The ECFE program has seen an increase in participation and growth. With the addition of the all-day Laker Care program in August there was added revenue. The Community Service Fund will continue to be closely monitored to increase the fund balance, as the main goal is to at least break even with the program.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

Long-Term Debt

At year-end, the District had \$38,315,379 of long-term debt, not including compensated absences payable or severance payable. The parts included in the above total are bonded indebtedness in the amount of \$33,934,917, capital notes of \$525,000 and financed purchase agreements payable of \$3,855,462. More detailed information regarding the District's long-term liabilities can be found in the notes to financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

- Enrollment continues to be the main factor in calculating revenue for the District. Since Minnesota school districts are paid based on pupil units served, a decline in enrollment results in less revenue being received for operations and an increase in enrollment results in more revenue being received. The District makes a concerted effort each year to follow the enrollment and match their expenditures to the enrollment. In fiscal year 2023, the District continued these discussions. Enrollment is about 11 students higher for fiscal year 2024 compared to the prior year at this same time and is higher than was projected in the budget. Enrollment trends will be watched carefully in the future.
- The State Legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. School districts received a 4% increase for 2023-24 and received another 2% increase for 2024-25.
- The District's taxpayers will be voting on a proposed operating levy on November 7, 2023. The school board is asking voters for \$600.00 per pupil on the ballot. (The current operating levy of \$55.24 expired at the end of the 2022-23 school year.) The operating levy revenue will provide the additional revenue needed to maintain current programs and class sizes. Without an operating levy the District will have to make further budget reductions that will affect staffing, programs and activities.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

Independent School District No. 2687
Statement of Net Position
June 30, 2023

	Governmental Activities
Assets	
Cash and investments	\$ 3,358,576
Cash with fiscal agent	8,533
Current property taxes receivable	2,563,795
Delinquent property taxes receivable	25,249
Accounts receivable	41,630
Due from Department of Education	1,671,837
Due from Federal Government through Department of Education	249,263
Due from other Minnesota school districts	67,917
Inventory	18,150
Prepaid items	14,070
Equity interest in joint venture	135,187
Capital assets not being depreciated	
Land	2,234,145
Capital assets being depreciated	
Land improvements	1,646,712
Buildings	54,951,233
Equipment and vehicles	1,863,237
Less accumulated depreciation	(15,947,707)
Total assets	<u>52,901,827</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	3,569,147
Deferred outflows of resources related to OPEB	40,735
Total deferred outflows of resources	<u>3,609,882</u>
Total assets and deferred outflows of resources	<u>\$ 56,511,709</u>
Liabilities	
Accounts payable	\$ 126,742
Salaries and benefits payable	1,519,863
Interest payable	532,600
Due to other Minnesota school districts	35,987
Unearned revenue	60,192
Loan payable	
Payable within one year	11,299
Bond principal payable	
Payable within one year	1,845,000
Payable after one year	32,089,917
Financed purchase agreements payable	
Payable within one year	409,714
Payable after one year	3,445,748
Capital note payable	
Payable within one year	58,000
Payable after one year	467,000
Compensated absences payable	
Payable within one year	33,125
Severance payable	
Payable after one year	125,285
Net pension liability	11,359,518
Total OPEB liability	435,666
Total liabilities	<u>52,555,656</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	4,735,164
Deferred inflows of resources related to pensions	2,021,004
Deferred inflows of resources related to OPEB	149,847
Total deferred inflows of resources	<u>6,906,015</u>
Net Position	
Net investment in capital assets	6,440,774
Restricted for	
Debt service	102,382
Other purposes	601,937
Unrestricted	(10,095,055)
Total net position	<u>(2,949,962)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 56,511,709</u>

Independent School District No. 2687
Statement of Activities
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital Grants	Revenues and
		Services	Grants and	and	Changes in
			Contributions	Contributions	Net Position
					Governmental
					Activities
Governmental activities					
Administration	\$ 495,970	\$ -	\$ -	\$ -	\$ (495,970)
District support services	635,719	-	-	-	(635,719)
Elementary and secondary regular instruction	6,515,853	236,466	1,476,995	193,995	(4,608,397)
Vocational education instruction	408,719	16,591	3,737	-	(388,391)
Special education instruction	2,443,054	108,350	2,074,922	-	(259,782)
Instructional support services	627,672	59,801	197,056	-	(370,815)
Pupil support services	2,318,994	28,818	50,277	-	(2,239,899)
Sites and buildings	3,100,833	152,641	-	334,481	(2,613,711)
Fiscal and other fixed cost programs	111,131	-	-	-	(111,131)
Food service	1,150,426	434,281	593,637	-	(122,508)
Community education and services	783,078	421,553	210,270	-	(151,255)
Interest and fiscal charges on long-term debt	1,313,674	-	-	-	(1,313,674)
Total governmental activities	<u>\$ 19,905,123</u>	<u>\$ 1,458,501</u>	<u>\$ 4,606,894</u>	<u>\$ 528,476</u>	(13,311,252)
General revenues					
Taxes					
Property taxes, levied for general purposes					1,976,660
Property taxes, levied for community service					121,599
Property taxes, levied for debt service					2,662,522
State aid-formula grants					10,382,357
Other general revenues					109,592
Investment income					86,596
Total general revenues					<u>15,339,326</u>
Change in net position					2,028,074
Net position - beginning					(4,978,036)
Net position - ending					<u>\$ (2,949,962)</u>

See notes to basic financial statements.

Independent School District No. 2687
Balance Sheet - Governmental Funds
June 30, 2023

	General	Debt Service	Building Construction	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 882,686	\$ 2,031,662	\$ -	\$ 444,228	\$ 3,358,576
Cash with fiscal agent	-	-	8,533	-	8,533
Current property taxes receivable	832,095	1,660,606	-	71,094	2,563,795
Delinquent property taxes receivable	9,918	14,663	-	668	25,249
Accounts receivable	34,237	-	-	7,393	41,630
Due from Department of Education	1,613,020	38,802	-	20,015	1,671,837
Due from Federal Government through Department of Education	221,049	-	-	28,214	249,263
Due from other Minnesota school districts	51,713	-	-	16,204	67,917
Inventory	-	-	-	18,150	18,150
Prepaid items	8,145	-	-	5,925	14,070
Total assets	<u>\$ 3,652,863</u>	<u>\$ 3,745,733</u>	<u>\$ 8,533</u>	<u>\$ 611,891</u>	<u>\$ 8,019,020</u>
Liabilities					
Accounts payable	\$ 116,680	\$ -	\$ -	\$ 10,062	\$ 126,742
Salaries and benefits payable	1,441,798	-	-	78,065	1,519,863
Loan payable	11,299	-	-	-	11,299
Due to other Minnesota school districts	35,987	-	-	-	35,987
Unearned revenue	-	-	-	60,192	60,192
Total liabilities	<u>1,605,764</u>	<u>-</u>	<u>-</u>	<u>148,319</u>	<u>1,754,083</u>
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	1,476,540	3,110,751	-	147,873	4,735,164
Unavailable revenue - delinquent taxes	9,918	14,663	-	668	25,249
Total deferred inflows of resources	<u>1,486,458</u>	<u>3,125,414</u>	<u>-</u>	<u>148,541</u>	<u>4,760,413</u>
Fund Balances					
Nonspendable	8,145	-	-	24,075	32,220
Restricted	168,798	620,319	8,533	408,396	1,206,046
Assigned	5,750	-	-	-	5,750
Unassigned	377,948	-	-	(117,440)	260,508
Total fund balances	<u>560,641</u>	<u>620,319</u>	<u>8,533</u>	<u>315,031</u>	<u>1,504,524</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,652,863</u>	<u>\$ 3,745,733</u>	<u>\$ 8,533</u>	<u>\$ 611,891</u>	<u>\$ 8,019,020</u>

Independent School District No. 2687
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2023

Total fund balances - governmental funds	\$ 1,504,524
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	60,695,327
Less accumulated depreciation	(15,947,707)
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.	
Equity interest in joint venture - Wright Technical Center	135,187
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	(33,290,000)
Premium on bonds payable	(644,917)
Financed purchase agreements payable	(3,855,462)
Capital note payable	(525,000)
Compensated absences payable	(33,125)
Severance payable	(125,285)
Total OPEB liability	(435,666)
Net pension liability	(11,359,518)
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	3,569,147
Deferred inflows of resources related to pensions	(2,021,004)
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	40,735
Deferred inflows of resources related to OPEB	(149,847)
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.	
	25,249
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	
	<u>(532,600)</u>
Total net position - governmental activities	<u><u>\$ (2,949,962)</u></u>

Independent School District No. 2687
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2023

	General	Debt Service	Building Construction	Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	\$ 1,977,804	\$ 2,664,762	\$ -	\$ 121,689	\$ 4,764,255
Other local and county revenues	1,399,446	13,469	-	497,786	1,910,701
Revenue from state sources	13,275,810	388,070	-	205,619	13,869,499
Revenue from federal sources	399,360	-	-	548,296	947,656
Sales and other conversion of assets	-	-	-	434,281	434,281
Total revenues	<u>17,052,420</u>	<u>3,066,301</u>	<u>-</u>	<u>1,807,671</u>	<u>21,926,392</u>
Expenditures					
Current					
Administration	603,955	-	-	-	603,955
District support services	649,538	-	-	-	649,538
Elementary and secondary regular instruction	7,762,106	-	-	-	7,762,106
Vocational education instruction	490,538	-	-	-	490,538
Special education instruction	2,766,059	-	-	-	2,766,059
Instructional support services	558,306	-	-	-	558,306
Pupil support services	2,384,400	-	-	-	2,384,400
Sites and buildings	1,768,170	-	-	-	1,768,170
Fiscal and other fixed cost programs	111,131	-	-	-	111,131
Food service	-	-	-	1,134,099	1,134,099
Community education and services	644	-	-	823,801	824,445
Capital outlay					
Elementary and secondary regular instruction	36,649	-	-	-	36,649
Vocational education instruction	41,279	-	-	-	41,279
Instructional support services	87,123	-	-	-	87,123
Pupil support services	237	-	-	-	237
Sites and buildings	13,321	-	433,407	-	446,728
Food service	-	-	-	15,694	15,694
Debt service					
Principal	398,108	1,770,000	-	-	2,168,108
Interest and fiscal charges	114,332	1,301,354	-	-	1,415,686
Total expenditures	<u>17,785,896</u>	<u>3,071,354</u>	<u>433,407</u>	<u>1,973,594</u>	<u>23,264,251</u>
Excess of revenues under expenditures	(733,476)	(5,053)	(433,407)	(165,923)	(1,337,859)
Fund Balances					
Beginning of year	<u>1,294,117</u>	<u>625,372</u>	<u>441,940</u>	<u>480,954</u>	<u>2,842,383</u>
End of year	<u>\$ 560,641</u>	<u>\$ 620,319</u>	<u>\$ 8,533</u>	<u>\$ 315,031</u>	<u>\$ 1,504,524</u>

See notes to basic financial statements.

Independent School District No. 2687
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	\$ (1,337,859)
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	423,059
Depreciation expense	(1,319,913)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	18,653
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(14,518)
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(3,741)
OPEB are recognized as they are paid in the governmental funds but are recognized as the expense is incurred in the Statement of Activities	(4,944)
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.	2,000,691
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.	2,168,108
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.	34,117
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	67,895
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.	(3,474)
Change in net position - governmental activities	<u>\$ 2,028,074</u>

Independent School District No. 2687
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
Revenues				
Local property taxes	\$ 1,897,324	\$ 1,897,524	\$ 1,977,804	\$ 80,280
Other local and county revenues	1,052,818	1,186,641	1,399,446	212,805
Revenue from state sources	12,835,843	12,985,749	13,275,810	290,061
Revenue from federal sources	272,026	461,177	399,360	(61,817)
Total revenues	<u>16,058,011</u>	<u>16,531,091</u>	<u>17,052,420</u>	<u>521,329</u>
Expenditures				
Current				
Administration	634,855	641,467	603,955	(37,512)
District support services	555,685	611,323	649,538	38,215
Elementary and secondary regular instruction	7,485,307	7,617,438	7,762,106	144,668
Vocational education instruction	405,011	452,645	490,538	37,893
Special education instruction	2,805,378	2,859,554	2,766,059	(93,495)
Instructional support services	498,946	550,237	558,306	8,069
Pupil support services	1,962,236	2,013,482	2,384,400	370,918
Sites and buildings	1,673,513	1,680,146	1,768,170	88,024
Fiscal and other fixed cost programs	103,548	102,190	111,131	8,941
Community education and services	-	-	644	644
Capital outlay				
Elementary and secondary regular instruction	26,925	33,525	36,649	3,124
Vocational education instruction	-	-	41,279	41,279
Instructional support services	100,000	84,000	87,123	3,123
Pupil support services	-	-	237	237
Sites and buildings	15,000	15,000	13,321	(1,679)
Debt service				
Principal	376,367	376,367	398,108	21,741
Interest and fiscal charges	135,373	135,373	114,332	(21,041)
Total expenditures	<u>16,778,144</u>	<u>17,172,747</u>	<u>17,785,896</u>	<u>613,149</u>
Excess of revenues under expenditures	<u>\$ (720,133)</u>	<u>\$ (641,656)</u>	<u>(733,476)</u>	<u>\$ (91,820)</u>
Fund Balances				
Beginning of year			<u>1,294,117</u>	
End of year			<u>\$ 560,641</u>	

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

1. Joint Ventures

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

B. Basic Financial Statement Information

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

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

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

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

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds:

Major Funds:

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

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

Building Construction Capital Projects Fund – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Nonmajor Funds:

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

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

D. Deposits and Investments

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

Cash and investments at June 30, 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.

Independent School District No. 2687
Notes to Basic Financial Statements

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. 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. Prepaid Items

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

I. Property Taxes

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

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

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than \$3,000 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 and vehicles.

Capital assets not being depreciated include 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.

K. Deferred Outflows/Inflows of Resources

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

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

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

L. Long-Term Obligations

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

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

M. Compensated Absences

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

Substantially all employees are entitled to sick leave at various rates. Most employees are not compensated for unused sick leave upon a qualified termination of employment.

N. Severance Benefits

Severance benefits consist of lump sum retirement payments.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Severance Benefits (Continued)

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

O. Pensions

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

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

P. Risk Management

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

Q. Fund Equity

1. Classification

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

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include prepaid items and inventory.
- **Restricted Fund Balances** – These are subject to externally enforceable legal restrictions set by either statute or creditors.
- **Committed Fund Balances** – These are amounts that can be used for specific purposes pursuant to the constraint imposed by the School Board, the highest level of decision making authority. Such designations will be approved by a majority vote of the School Board.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Equity (Continued)

1. Classification (Continued)

- Assigned Fund Balances – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The School Board, by majority vote, may assign fund balances to be used for a specific purpose when appropriate. The board also delegates the power to assign fund balances to the Superintendent.
- Unassigned Fund Balances – These are amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

2. Minimum Fund Balance Policy

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

R. Net Position

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

S. Use of Estimates

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

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Equity (Continued)

T. Budgetary Information

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

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

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

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balance

The Community Service Fund had a negative fund balance of \$80,101 at June 30, 2023.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* § 118.03 for an amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, FCUA, or other federal deposit coverage. As of June 30, 2023, the District's bank balance was not exposed to custodial credit risk because it was properly insured and collateralized.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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

Checking - pooled	\$ 355,179
Cash with fiscal agent - checking - non-pooled	<u>8,533</u>
Total deposits	<u><u>\$ 363,712</u></u>

B. Investments

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

Investment Type	Type	Investment Maturity (In Years)		
		Fair Value	Less than 1 Year	Ratings
Pooled				
MSDLAF - Liquid Class	LAF	\$ 746,721	\$ 746,721	AAAm
MSDLAF - MAX Class	MAX	<u>2,254,751</u>	<u>2,254,751</u>	AAAm
Total		<u><u>\$ 3,001,472</u></u>	<u><u>\$ 3,001,472</u></u>	

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy refers to *Minnesota Statutes* §§ 118A.04 through 118A.05. *Minnesota Statutes* outline allowable investments. The District will minimize credit risk by limiting investments to those allowed by statutory constraints. As of June 30, 2023, the District's investments were rated as noted in the table above.

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

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

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

Below is a summary of total deposits and investments:

Petty cash	\$ 1,925
Deposits (Note 2.A.)	363,712
Investments (Note 2.B.)	<u>3,001,472</u>
Total deposits and investments	<u><u>\$ 3,367,109</u></u>

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

Statement of Net Position	
Cash and investments	\$ 3,358,576
Cash w fiscal agent	<u>8,533</u>
Total	<u><u>\$ 3,367,109</u></u>

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 4 – 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	\$ 2,234,145	\$ -	\$ -	\$ 2,234,145
Construction in progress	87,206	329,149	416,355	-
Total capital assets not being depreciated	<u>2,321,351</u>	<u>329,149</u>	<u>416,355</u>	<u>2,234,145</u>
Capital assets being depreciated				
Land improvements	1,646,712	-	-	1,646,712
Buildings	54,516,124	435,109	-	54,951,233
Equipment and vehicles	1,875,895	75,156	87,814	1,863,237
Total capital assets being depreciated	<u>58,038,731</u>	<u>510,265</u>	<u>87,814</u>	<u>58,461,182</u>
Less accumulated depreciation for				
Land improvements	581,074	76,988	-	658,062
Buildings	12,881,516	1,128,720	-	14,010,236
Equipment and vehicles	1,253,018	114,205	87,814	1,279,409
Total accumulated depreciation	<u>14,715,608</u>	<u>1,319,913</u>	<u>87,814</u>	<u>15,947,707</u>
Total capital assets being depreciated, net	<u>43,323,123</u>	<u>(809,648)</u>	<u>-</u>	<u>42,513,475</u>
Governmental activities, capital assets, net	<u><u>\$ 45,644,474</u></u>	<u><u>\$ (480,499)</u></u>	<u><u>\$ 416,355</u></u>	<u><u>\$ 44,747,620</u></u>

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of \$1,319,913 for the year ended June 30, 2023, was charged to the following governmental functions:

District support services	\$ 445
Elementary and secondary regular instruction	35,624
Vocational education instruction	1,430
Special education instruction	1,074
Instructional support services	35,856
Pupil support services	5,823
Sites and buildings	1,230,749
Food service	8,912
	<hr/>
Total depreciation expense	<u><u>\$ 1,319,913</u></u>

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds						
2014A School Building Bonds	01/29/14	4.00%-4.25%	\$ 21,315,000	02/01/37	\$ 18,330,000	\$ 405,000
2014B School Building Refunding Bonds	12/30/14	2.00%-4.00%	22,360,000	02/01/32	13,910,000	1,360,000
2017A G.O. Facilities Maintenance Bonds	03/09/17	1.35%-2.85%	1,345,000	02/01/32	1,050,000	80,000
Total G.O. bonds					<hr/> 33,290,000	<hr/> 1,845,000
Bond premium					644,917	-
2021A G.O. Capital Notes	12/29/21	1.35%	525,000	08/01/31	525,000	58,000
Financed purchase agreements from direct borrowing					3,855,462	409,714
Compensated absences payable					33,125	33,125
Severance payable					125,285	-
					<hr/>	<hr/>
Total long-term liabilities					<u><u>\$ 38,473,789</u></u>	<u><u>\$ 2,345,839</u></u>

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

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities (Continued)

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

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

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

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

B. Minimum Debt Payments for Bonds and Lease Purchase Agreement

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

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2024	\$ 1,845,000	\$ 1,218,486	\$ 3,063,486
2025	1,930,000	1,142,316	3,072,316
2026	1,995,000	1,080,974	3,075,974
2027	2,065,000	1,017,524	3,082,524
2028	2,140,000	951,629	3,091,629
2029-2033	11,860,000	3,674,511	15,534,511
2034-2037	11,455,000	1,231,165	12,686,165
Total	<u>\$ 33,290,000</u>	<u>\$ 10,316,605</u>	<u>\$ 43,606,605</u>

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

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

Year Ending June 30,	G.O. Capital Notes		
	Principal	Interest	Total
2024	\$ 58,000	\$ 6,892	\$ 64,892
2025	58,000	6,109	64,109
2026	58,000	5,326	63,326
2027	60,000	4,536	64,536
2028	60,000	3,726	63,726
2029-2032	231,000	6,554	237,554
Total	<u>\$ 525,000</u>	<u>\$ 33,143</u>	<u>\$ 558,143</u>

Year Ending June 30,	Financed Purchase Agreements from Direct Borrowing		
	Principal	Interest	Total
2024	\$ 409,714	\$ 102,024	\$ 511,738
2025	387,811	91,728	479,539
2026	388,596	81,143	469,739
2027	399,478	70,261	469,739
2028	410,665	59,074	469,739
2029-2033	1,406,361	143,455	1,549,816
2034-2036	452,837	21,231	474,068
Total	<u>\$ 3,855,462</u>	<u>\$ 568,916</u>	<u>\$ 4,424,378</u>

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	\$ 35,606,000	\$ -	\$ 1,770,000	\$ 33,290,000
Bond Premium	712,812	-	67,895	644,917
Capital Notes	525,000	-	-	525,000
Financed purchase agreements from direct borrowing	4,253,570	-	398,108	3,855,462
Compensated absences payable	18,607	85,072	70,554	33,125
Severance payable	121,544	3,741	-	125,285
Total Long-term liabilities	<u>\$ 40,691,533</u>	<u>\$ 88,813</u>	<u>\$ 2,306,557</u>	<u>\$ 38,473,789</u>

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 6 – FUND BALANCES

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

A. Fund Balance

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

	General Fund	Debt Service Fund	Building Construction Fund	Nonmajor Funds	Total
Nonspendable for					
Inventory	\$ -	\$ -	\$ -	\$ 18,150	\$ 18,150
Prepaid items	8,145	-	-	5,925	14,070
Total nonspendable	<u>8,145</u>	<u>-</u>	<u>-</u>	<u>24,075</u>	<u>32,220</u>
Restricted/reserved for					
Student Activities	121,167	-	-	-	121,167
Long-term Facilities Maintenance	47,631	-	-	-	47,631
Debt Service	-	620,319	-	-	620,319
Building Construction	-	-	8,533	-	8,533
Food Service	-	-	-	372,414	372,414
Early Childhood and Family Education (ECFE)	-	-	-	28,142	28,142
Community Service	-	-	-	7,840	7,840
Total restricted/reserved	<u>168,798</u>	<u>620,319</u>	<u>8,533</u>	<u>408,396</u>	<u>1,206,046</u>
Assigned for Acts of Kindness	3,271	-	-	-	3,271
Assigned for Letter Club	2,479	-	-	-	2,479
Total assigned	<u>5,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,750</u>
Unassigned for Community Education	-	-	-	(98,378)	(98,378)
Unassigned for School Readiness	-	-	-	(19,062)	(19,062)
Unassigned	377,948	-	-	-	377,948
Total unassigned	<u>377,948</u>	<u>-</u>	<u>-</u>	<u>(117,440)</u>	<u>260,508</u>
Total fund balance	<u>\$ 560,641</u>	<u>\$ 620,319</u>	<u>\$ 8,533</u>	<u>\$ 315,031</u>	<u>\$ 1,504,524</u>

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

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

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

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

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 6 – FUND BALANCES (CONTINUED)

A. Fund Balance (Continued)

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

Restricted for Building Construction – This balance represents resources available for payment of building construction costs.

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

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

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.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational, and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, and extended day programs. This balance in the Community Service Fund was in deficit at June 30, 2023, and has been reclassified as an unassigned balance for financial statement presentation.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* § 124D.16). This balance in the Community Service Fund was in deficit at June 30, 2022, and has been reclassified as an unassigned balance for financial statement presentation.

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 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was (\$1,081,397). The components of pension expense are noted in the following plan summaries.

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

Independent School District No. 2687
Notes to Basic Financial Statements

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

Teachers' Retirement Association

A. Plan Description

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCP) administered by Minnesota State.

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).

Independent School District No. 2687
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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.

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	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
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%

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.

Independent School District No. 2687
Notes to Basic Financial Statements

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

C. Contribution Rate (Continued)

Amounts reported in the allocation schedules may not precisely agree with 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.

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	<u>(572)</u>
Total employer contributions	479,929
Total non-employer contributions	<u>35,590</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u><u>\$ 515,519</u></u>

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 7 – 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.

Independent School District No. 2687
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

The TRA actuary has determined the average of the expected remaining service 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).

F. Net Pension Liability

On June 30, 2023, the District reported a liability of \$8,904,308 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 0.1112% at the end of the measurement period and 0.1129% for the beginning of the year.

Independent School District No. 2687
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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	\$ 8,904,308
State's proportionate share of the net pension liability associated with the District	660,501

For the year ended June 30, 2023, the District recognized pension expense of (\$1,420,639). Included in this amount, the District recognized \$90,821 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 economic experience	\$ 127,045	\$ 77,907
Changes in actuarial assumptions	1,448,078	1,828,411
Net collective difference between projected and actual investments earnings	186,467	-
Change in proportion	343,522	78,746
Contributions paid to TRA subsequent to the measurement date	615,319	-
Total	<u>\$ 2,720,431</u>	<u>\$ 1,985,064</u>

The \$615,319 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.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 7 – 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	\$ (1,487,674)
2025	264,746
2026	127,263
2027	1,221,831
2028	(6,118)
Total	<u>\$ 120,048</u>

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% Increase in Discount Rate (8.0%)
\$ 14,037,156	\$ 8,904,308	\$ 4,696,972

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.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 7 – 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.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 7 – 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 \$202,402. 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 \$2,455,210 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 \$71,960.

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 0.0310% at the end of the measurement period and 0.0308% for the beginning of the period.

School's proportionate share of net pension liability	\$ 2,455,210
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>71,960</u>
Total	<u><u>\$ 2,527,170</u></u>

For the year ended June 30, 2023, the District recognized pension expense of \$339,242 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$10,752 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.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 7 – 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	\$ 20,508	\$ 26,050
Changes in actuarial assumptions	552,182	9,890
Net collective difference between projected and actual investment earnings	47,635	-
Changes in proportion	25,989	-
Contributions paid to PERA subsequent to the measurement date	202,402	-
Total	<u>\$ 848,716</u>	<u>\$ 35,940</u>

The \$202,402 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	\$ 234,716
2025	227,714
2026	(74,092)
2027	222,036
Total	<u>\$ 610,374</u>

Independent School District No. 2687
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	<u>100.0 %</u>	

F. Actuarial Methods and Assumptions

The total pension liability 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.

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.

Independent School District No. 2687
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

F. Actuarial Methods and Assumptions (Continued)

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

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	\$ 3,878,133	\$ 2,455,210	\$ 1,288,194

I. Pension Plan Fiduciary Net Position

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

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

B. Benefits Provided

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

C. Members

As of July 1, 2021, the following were covered by the benefit terms:

Retirees currently receiving benefits	2
Active employees	<u>154</u>
Total	<u><u>156</u></u>

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For the fiscal year 2023, the District contributed \$18,952 to the plan.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Discount rate	3.80%
Salary increases	Service graded table
Inflation	2.50%
Medical trend rate	6.25% in 2022 grading to 5.00% over five years and then 4.00% over the next 48 years
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale

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

The discount rate used to measure the total OPEB liability was 3.8% using the 20-year municipal bond yield.

F. Total OPEB Liability

The District's total OPEB liability of \$435,666 was measured as of July 1, 2022, and was determined by an actuarial valuation as of July 1, 2021.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2022	\$ 441,606
Changes for the year	
Service cost	43,276
Interest cost	10,003
Assumption changes	(42,017)
Benefit payments	<u>(17,202)</u>
Net changes	<u>(5,940)</u>
Balances at June 30, 2023	<u><u>\$ 435,666</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.1% in 2022 to 3.8% in 2022 and a change in the inflation rate from 2.0% in 2022 to 2.5% in 2023.

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.8% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

<u>Total OPEB Liability</u>		
1% Decrease in Discount Rate (2.8%)	Current in Discount Rate (3.8%)	1% Increase in Discount Rate (4.8%)
<u> </u>	<u> </u>	<u> </u>
\$ 467,219	\$ 435,666	\$ 405,494

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.

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity (Continued)

Total OPEB Liability		
1% Decrease (5.25% Decreasing to 4.00%)	Current (6.25% Decreasing to 5.00%)	1% Increase (7.25% Decreasing to 6.00%)
<u> </u>	<u> </u>	<u> </u>
\$ 382,552	\$ 435,666	\$ 499,521

**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 \$23,701. 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
	<u> </u>	<u> </u>
Liability gains	\$ -	\$ 106,024
Assumption changes	21,783	43,823
Contributions subsequent to the measurement date	<u>18,952</u>	<u>-</u>
Total	<u>\$ 40,735</u>	<u>\$ 149,847</u>

Independent School District No. 2687
Notes to Basic Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

The \$18,952 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024. Remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Year Ended</u>	<u>Total</u>
2024	\$ (29,578)
2025	(29,578)
2026	(29,578)
2027	(15,479)
2028	(17,852)
Thereafter	<u>(5,999)</u>
Total	<u><u>\$ (128,064)</u></u>

NOTE 9 – JOINT POWERS AGREEMENT

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 2687
Schedule of Changes in Total OPEB Liability
and Related Ratios

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

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

<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>
\$ 47,233	\$ 53,893	\$ 43,276
15,762	12,787	10,003
-	(100,126)	-
16,640	17,189	(42,017)
-	23,844	-
<u>(34,589)</u>	<u>(89,197)</u>	<u>(17,202)</u>
<u>45,046</u>	<u>(81,610)</u>	<u>(5,940)</u>
 <u>478,370</u>	 <u>523,416</u>	 <u>441,606</u>
 <u><u>\$ 523,416</u></u>	 <u><u>\$ 441,806</u></u>	 <u><u>\$ 435,666</u></u>
 \$ 7,579,938	 \$ 7,922,809	 \$ 8,160,493
 6.91%	 5.58%	 5.34%

Independent School District No. 2687
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 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
2015	0.0380%	\$ 1,785,050	\$ -	\$ 1,785,050	\$ 1,997,503	89.4%	78.8%
2016	0.0362%	1,876,072	-	1,876,072	2,090,893	89.7%	78.2%
2017	0.0354%	2,874,304	37,474	2,911,778	2,194,080	131.0%	68.9%
2018	0.0333%	2,125,850	26,705	2,152,555	2,143,160	99.2%	75.9%
2019	0.0306%	1,697,563	55,677	1,753,240	2,058,053	82.5%	79.5%
2020	0.0295%	1,630,989	50,664	1,681,653	2,089,747	78.0%	80.2%
2021	0.0307%	1,840,605	56,853	1,897,458	2,191,947	84.0%	79.1%
2022	0.0308%	1,315,298	40,242	1,355,540	2,220,120	59.2%	87.0%
2023	0.0310%	2,455,210	71,960	2,527,170	2,322,253	105.7%	76.7%

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 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
2015	0.1006%	\$ 4,635,576	\$ 326,176	\$ 4,961,752	\$ 4,590,543	101.0%	81.5%
2016	0.0951%	5,882,876	721,828	6,604,704	4,828,120	121.8%	76.8%
2017	0.1003%	23,923,943	2,402,047	26,325,990	5,216,187	458.6%	44.9%
2018	0.1059%	21,139,561	2,042,842	23,182,403	5,699,213	370.9%	51.6%
2019	0.1079%	6,777,130	636,530	7,413,660	5,962,987	113.7%	78.1%
2020	0.1071%	6,826,576	604,245	7,430,821	6,080,752	112.3%	78.2%
2021	0.1076%	7,949,632	666,104	8,615,736	6,255,328	127.1%	75.5%
2022	0.1129%	4,940,842	416,630	5,357,472	6,756,740	73.1%	86.6%
2023	0.1112%	8,904,308	660,501	9,564,809	6,875,348	129.5%	76.2%

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

Independent School District No. 2687
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	\$ 144,819	\$ 144,819	\$ -	\$ 1,997,503	7.25%
2015	156,817	156,817	-	2,090,893	7.50%
2016	164,556	164,556	-	2,194,080	7.50%
2017	160,737	160,737	-	2,143,160	7.50%
2018	154,354	154,354	-	2,058,053	7.50%
2019	156,731	156,731	-	2,089,747	7.50%
2020	164,396	164,396	-	2,191,947	7.50%
2021	166,509	166,509	-	2,220,120	7.50%
2022	174,169	174,169	-	2,322,253	7.50%
2023	202,402	202,402	-	2,698,693	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	\$ 321,338	\$ 321,338	\$ -	\$ 4,590,543	7.00%
2015	362,109	362,109	-	4,828,120	7.50%
2016	391,214	391,214	-	5,216,187	7.50%
2017	427,441	427,441	-	5,699,213	7.50%
2018	447,224	447,224	-	5,962,987	7.50%
2019	468,826	468,826	-	6,080,752	7.71%
2020	495,422	495,422	-	6,255,328	7.92%
2021	549,323	549,323	-	6,756,740	8.13%
2022	573,404	573,404	-	6,875,348	8.34%
2023	615,319	615,319	-	7,196,713	8.55%

Independent School District No. 2687
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.

Independent School District No. 2687
Notes to the Required Supplementary Information

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.

Independent School District No. 2687
Notes to the Required Supplementary Information

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. 2687
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 changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Independent School District No. 2687
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2020 Changes (Continued)

Changes in Plan Provisions

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

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

Independent School District No. 2687
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2017 Changes (Continued)

Changes in Plan Provisions

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

2016 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

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

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. 2687
Notes to the Required Supplementary Information

Post Employment Health Care Plan

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

2022 Changes

Assumption Changes

- The discount rate was changed from 2.10% to 3.80%.
- The inflation rate was changed from 2.00% to 2.50%.

2021 Changes

Assumption Changes

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

Plan Changes

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

2020 Changes

Assumption Changes

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

2019 Changes

Assumption Changes

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

Plan Changes

- Two teachers who retired during June 2019 received a one-time contribution of \$15,000 to a VEBA/HRA account.

Independent School District No. 2687
Notes to the Required Supplementary Information

Post Employment Health Care Plan (Continued)

2019 Changes (Continued)

Plan Changes (Continued)

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

2018 Changes

None

2017 Changes

Assumption Changes

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

Method Changes

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

SUPPLEMENTARY INFORMATION

Independent School District No. 2687
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2023

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
Assets			
Cash and investments	\$ 382,543	\$ 61,685	\$ 444,228
Current property taxes receivable	-	71,094	71,094
Delinquent property taxes receivable	-	668	668
Accounts receivable	474	6,919	7,393
Due from Department of Education	3,399	16,616	20,015
Due from other Minnesota school districts	1,880	14,324	16,204
Due from federal government			
Through department of education	28,214	-	28,214
Inventory	18,150	-	18,150
Prepaid items	4,568	1,357	5,925
Total assets	<u>\$ 439,228</u>	<u>\$ 172,663</u>	<u>\$ 611,891</u>
Liabilities			
Accounts payable	\$ 3,597	\$ 6,465	\$ 10,062
Salaries and benefits payable	20,766	57,299	78,065
Unearned revenue	19,733	40,459	60,192
Total liabilities	<u>44,096</u>	<u>104,223</u>	<u>148,319</u>
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	147,873	147,873
Unavailable revenue - delinquent taxes	-	668	668
Total deferred inflows of resources	<u>-</u>	<u>148,541</u>	<u>148,541</u>
Fund Balances			
Nonspendable	22,718	1,357	24,075
Restricted	372,414	35,982	408,396
Unassigned	-	(117,440)	(117,440)
Total fund balances	<u>395,132</u>	<u>(80,101)</u>	<u>315,031</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 439,228</u>	<u>\$ 172,663</u>	<u>\$ 611,891</u>

Independent School District No. 2687
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	\$ -	\$ 121,689	\$ 121,689
Other local and county revenues	3,960	493,826	497,786
Revenue from state sources	45,341	160,278	205,619
Revenue from federal sources	548,296	-	548,296
Sales and other conversion of assets	434,281	-	434,281
Total revenues	<u>1,031,878</u>	<u>775,793</u>	<u>1,807,671</u>
Expenditures			
Current			
Food service	1,134,099	-	1,134,099
Community education and services	-	823,801	823,801
Capital outlay			
Food service	<u>15,694</u>	<u>-</u>	<u>15,694</u>
Total expenditures	<u>1,149,793</u>	<u>823,801</u>	<u>1,973,594</u>
Excess of revenues over (under) expenditures	(117,915)	(48,008)	(165,923)
Fund Balances			
Beginning of year	<u>513,047</u>	<u>(32,093)</u>	<u>480,954</u>
End of year	<u>\$ 395,132</u>	<u>\$ (80,101)</u>	<u>\$ 315,031</u>

Independent School District No. 2687
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2023

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total revenue	\$ 17,052,420	\$ 17,052,420	\$ -	Total revenue	\$ -	\$ -	\$ -
Total expenditures	17,785,896	17,785,892	4	Total expenditures	433,407	433,408	(1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	8,145	8,145	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	121,167	121,167	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.13 Project Funded by COP/LP	-	-	-
4.03 Staff Development	-	-	-	4.67 LTFM	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Programs	-	-	-	4.64 Restricted fund balance	8,533	8,533	-
4.08 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
4.13 Building Projects Funded by COP/LP	-	-	-	4.63 Unassigned fund balance	-	-	-
4.14 Operating Debt	-	-	-				
4.16 Levy Reduction	-	-	-	07 DEBT SERVICE FUND			
4.17 Taconite Building Maintenance	-	-	-	Total revenue	\$ 3,066,301	\$ 3,066,299	2
4.24 Operating Capital	-	-	-	Total expenditures	3,071,354	3,071,354	-
4.26 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
4.27 Disabled Accessibility	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.28 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
4.34 Area Learning Center	-	-	-	4.25 Bond refundings	-	-	-
4.35 Contracted Alternative Programs	-	-	-	4.33 Maximum effort loan aid	-	-	-
				4.67 LTFM	-	-	-
4.36 State Approved Alternative Program	-	-	-	4.51 QZAB payments	-	-	-
4.38 Gifted and Talented	-	-	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	-	-	-	4.64 Restricted fund balance	620,319	620,318	1
4.41 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
4.45 Career Technical Programs	-	-	-	4.63 Unassigned fund balance	-	-	-
4.46 First Grade Preparedness	-	-	-				
4.48 Achievement and Integration Revenue	-	-	-	08 TRUST FUND			
4.49 Safe School Crime	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.51 QZAB Payments	-	-	-	Total expenditures	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
4.53 Unfunded Severance and Retirement Levy	-	-	-	4.01 Student Activities	-	-	-
4.59 Basic Skills Extended Time	-	-	-	4.02 Scholarships	-	-	-
4.67 Long-term Facilities Maintenance	47,631	47,631	-	4.22 Net position	-	-	-
4.72 Medical Assistance	-	-	-				
4.75 Title VII - Impact Aid	-	-	-	18 CUSTODIAL			
4.76 Payments in Lieu of Taxes	-	-	-	Total revenue			
<i>Restricted:</i>				Total expenditures			
4.64 Restricted fund balance	-	-	-	<i>Restricted/Reserved:</i>			
<i>Committed:</i>				4.01 Student Activities	-	-	-
4.18 Committed for separation	-	-	-	4.02 Scholarships	-	-	-
4.61 Committed fund balance	-	-	-	4.48 Achievement and Intergration	-	-	-
<i>Assigned:</i>				4.64 Restricted	-	-	-
4.62 Assigned fund balance	5,750	5,750	-				
<i>Unassigned:</i>				20 INTERNAL SERVICE FUND			
4.22 Unassigned fund balance	377,948	377,951	(3)	Total revenue	\$ -	\$ -	\$ -
				Total expenditures	-	-	-
02 FOOD SERVICE FUND				<i>Unassigned:</i>			
Total revenue	\$ 1,031,878	\$ 1,031,879	\$ (1)	4.22 Net position	-	-	-
Total expenditures	1,149,793	1,149,793	-				
<i>Nonspendable:</i>				25 OPEB REVOCABLE TRUST			
4.60 Nonspendable fund balance	22,718	22,718	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted/reserved:</i>				Total expenditures	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				4.22 Net position	-	-	-
4.64 Restricted fund balance	372,414	372,413	1				
<i>Unassigned:</i>				45 OPEB IRREVOCABLE TRUST			
4.63 Unassigned fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
				Total expenditures	-	-	-
04 COMMUNITY SERVICE FUND				<i>Unassigned:</i>			
Total revenue	\$ 775,793	\$ 775,793	\$ -	4.22 Net position	-	-	-
Total expenditures	823,801	823,799	2				
<i>Nonspendable:</i>				47 OPEB DEBT SERVICE			
4.60 Nonspendable fund balance	1,357	1,357	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted/reserved:</i>				Total expenditures	-	-	-
4.26 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
4.31 Community Education	(98,378)	(98,378)	-	4.60 Nonspendable fund balance	-	-	-
4.32 ECFE	28,142	28,142	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluations	-	-	-	4.25 Bond refundings	-	-	-
4.44 School Readiness	(19,062)	(19,062)	-	4.64 Restricted fund balance	-	-	-
4.47 Adult Basic Education	-	1	(1)	<i>Unassigned:</i>			
4.52 OPEB Liabilities not Held in Trust	-	-	-	4.63 Unassigned fund balance	-	-	-
<i>Restricted:</i>							
4.64 Restricted fund balance	7,840	7,840	-				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				

Independent School District No. 2687
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Funding Source	Federal Assistance Living Number	Grant Name	Expenditures
Through Minnesota Department of Education			
U.S. Department of Agriculture	10.555	Commodities programs (cluster)	\$ 68,678
U.S. Department of Agriculture	10.553	School breakfast program (cluster)	52,674
U.S. Department of Agriculture	10.555	Child nutrition type A lunch (cluster)	383,275
U.S. Department of Agriculture	10.555	COVID-19 - Supply chain assistance	42,142
U.S. Department of Agriculture	10.556	Special milk program (cluster)	1,527
Total Child Nutrition Cluster			<u>548,296</u>
U.S. Department of Treasury	21.027	COVID 19 - Coronavirus State and Local Fiscal Recovery Fund	15,894
U.S. Department of Education	84.010	Title I, Part A	116,394
U.S. Department of Education	84.424	Title IV, Part A	10,000
U.S. Department of Education	84.367	Title II, Part A	15,660
U.S. Department of Education	84.425C	COVID-19 - GEER II	9,880
U.S. Department of Education	84.425D	COVID-19 - ESSER II	16,338
U.S. Department of Education	84.425U	COVID-19 - ARP - Learning Recovery Emergency Relief	133,637
Total Education Stabilization Fund			<u>159,855</u>
Through Meeker & Wright Special Education Cooperative #938			
U.S. Department of Education	84.027	Special education (cluster)	75,129
U.S. Department of Education	84.027X	COVID-19 ARP IDEA Part B, Section	18,060
U.S. Department of Education	84.173X	COVID-19 ARP IDEA Part B, Section	2,838
U.S. Department of Education	84.173	Special education early childhood (cluster)	9,151
Total Federal Special Education Cluster			<u>105,178</u>
Total Federal Expenditures			<u>\$ 971,277</u>

Independent School District No. 277
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes of net assets, or cash flows of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same Assistance Listing numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 4 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 5 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

**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. 2687
Howard Lake-Waverly-Winsted, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2687, Howard Lake-Waverly-Winsted, Minnesota, as of and for the year ending June 30, 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 November 7, 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control as Audit Finding 2023-001 to be a material weakness.

Report on Compliance and Other Matters

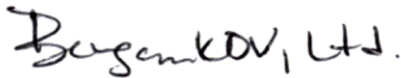
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

District's Response to the Finding

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

Purpose of this Report

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



St. Cloud, Minnesota
November 7, 2023

**Report on Compliance for Each Major Federal Program
and Report on Internal Control over Compliance Required by
the Uniform Guidance**

Independent Auditor's Report

To the School Board
Independent School District No. 2687
Howard Lake-Waverly-Winsted, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Independent School District No. 2687, Howard Lake-Waverly-Winsted, Minnesota compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2023. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

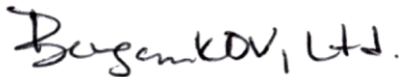
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Report on Internal Control over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



St. Cloud, Minnesota
November 7, 2023

Independent School District No. 2687
Schedule of Findings and Questioned Costs

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).
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Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2023-001
• Significant deficiency(ies) identified?	None reported

Noncompliance material to basic financial statements noted?	No
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Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
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Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No
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Identification of Major Programs

Assistance Listing No.:	10.553, 10.555, 10.556, and 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as low risk auditee?	No
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Independent School District No. 2687
Schedule of Findings and Questioned Costs

SECTION II – BASIC FINANCIAL STATEMENT FINDINGS

Audit Finding 2023-001

Criteria:

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

Condition:

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

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

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Business Manager has the ability to initiate and record manual journal entries without obtaining prior approval.
- The Business Manager can generate purchase orders, approve purchase orders or vouchers, enter invoices into the District's finance system, and has custody of checks before they are mailed.
- The payroll and benefits provider is responsible for all aspects of the payroll process. However, each payroll is reviewed by the Business Manager.

Questioned Costs:

None

Context:

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

Effect:

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

**Independent School District No. 2867
Schedule of Findings and Questioned Costs**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2023-001 (Continued)

Cause:

There are a limited number of office employees.

Recommendation:

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

Responsible Official's Response:

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will continue to review its accounting duties and implement changes when possible, to improve segregation of duties.
3. Official Responsible for Ensuring CAP
Brad Sellner, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2023.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 2687
Howard Lake-Waverly-Winsted, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2687, Howard Lake-Waverly-Winsted, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements, and have issued our report thereon dated November 7, 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.

A handwritten signature in black ink that reads "BergankDV, Ltd." in a cursive, stylized script.

St. Cloud, Minnesota
November 7, 2023

FORM OF LEGAL OPINION

(See following pages)



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

§ _____
INDEPENDENT SCHOOL DISTRICT NO. 2687
(HOWARD LAKE-WAVERLY-WINSTED)
CARVER, MCLEOD, AND WRIGHT COUNTIES, MINNESOTA
GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS
SERIES 2024A

We have acted as bond counsel to Independent School District No. 2687 (Howard Lake-Waverly-Winsted), Carver, McLeod, and Wright Counties, Minnesota (the “Issuer”), in connection with the issuance by the Issuer of its General Obligation School Building Refunding Bonds, Series 2024A (the “Bonds”), originally dated February __, 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 September 25, 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 materials 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.

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. 2687
(HOWARD LAKE-WAVERLY-WINSTED)
CARVER, MCLEOD, AND WRIGHT COUNTIES, MINNESOTA
GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS
SERIES 2024A

CONTINUING DISCLOSURE CERTIFICATE

February __, 2024

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Independent School District No. 2687 (Howard Lake-Waverly-Winsted), Carver, McLeod, and Wright Counties, Minnesota (the “District”), in connection with the issuance of its General Obligation School Building Refunding 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 [Purchaser][,as syndicate manager] (the “Purchaser”), on the date hereof. Pursuant to the Resolution, the District has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The District hereby covenants and agrees as follows:

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

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

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

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

“Bonds” means the General Obligation School Building Refunding 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. 2687 (Howard Lake-Waverly-Winsted), Carver, McLeod, and Wright Counties, 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 5(a) of this Disclosure Certificate.

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

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

“Purchaser” means [Purchaser][, as syndicate manager].

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

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

“SEC” means Securities and Exchange Commission, and any successor thereto.

Section 3. Provision of Annual Financial Information and Audited Financial Statements.

(a) The District shall provide to the Repository not later than twelve (12) months after the end of the Fiscal Year commencing with the year that ends June 30, 2024, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate, provided that the Audited Financial Statements of the District may be submitted separately from the balance of the Annual Report.

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

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

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

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

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

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

Section 5. Reporting of Material Events.

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

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

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

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

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

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

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

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

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

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 2687
(HOWARD LAKE-WAVERLY-WINSTED),
CARVER, MCLEOD, AND WRIGHT COUNTIES,
MINNESOTA**

Board Chair

Clerk

APPENDIX E

TERMS OF PROPOSAL

\$16,340,000* GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS, SERIES 2024A INDEPENDENT SCHOOL DISTRICT NO. 2687 (HOWARD LAKE-WAVERLY-WINSTED), MINNESOTA

Proposals for the purchase of \$16,340,000* General Obligation School Building Refunding Bonds, Series 2024A (the "Bonds") of Independent School District No. 2687 (Howard Lake-Waverly-Winsted), 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 January 29, 2024, at which time they will be opened, read and tabulated. On September 25, 2023, the School Board adopted a resolution which authorizes designated officials of the District to accept proposals on the Bonds on January 29, 2024. The Board will meet on January 29, 2024 at 6:00 P.M. to ratify and approve the sale of the Bonds. 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 authorized pursuant to Minnesota Statutes, Chapter 475, as amended, including Minnesota Statutes, Section 475.67, by the District, for the purpose of effecting a current refunding of certain outstanding general obligations of the District. The Bonds will be general obligations of the District for which its full faith and credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated February 22, 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:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2025	\$440,000	2030	\$645,000	2035	\$2,420,000
2026	460,000	2031	675,000	2036	2,540,000
2027	495,000	2032	375,000	2037	2,640,000
2028	555,000	2033	2,185,000		
2029	610,000	2034	2,300,000		

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 August 1, 2024, 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/ESCROW AGENT

The District has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC") to act as paying agent (the "Paying Agent") and Zions Bancorporation, National Association, Chicago, Illinois, to act as escrow agent (the "Escrow Agent"). BTSC and Ehlers are affiliate companies. The District will pay the charges for Paying Agent and Escrow Agent services. The District reserves the right to remove the Paying Agent and/or Escrow 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 February 22, 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 \$16,176,600 plus accrued interest on the principal sum of \$16,340,000 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 \$326,800 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.

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds shall not be designated as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

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

NEW ISSUE PRICING

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

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

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

- (1) The District shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the District may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (i) "public" means any person other than an underwriter or a related party,
- (ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "sale date" means the date that the Bonds are awarded by the District to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

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

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

By Order of the School Board

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

PROPOSAL FORM

The School Board
Independent School District No. 2687 (Howard Lake-Waverly-Winsted), Minnesota (the "District")

January 29, 2024

RE: \$16,340,000* General Obligation School Building Refunding Bonds, Series 2024A (the "Bonds")
DATED: February 22, 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 \$16,176,600) 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 2029	_____ % due 2034	

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%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

A good faith deposit ("Deposit") in the amount of \$326,800 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 February 22, 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 February 22, 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 Independent School District No. 2687 (Howard Lake-Waverly-Winsted), Minnesota, on January 29, 2024.

Title: _____ Title: _____