

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 2, 2023

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

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

New Issue

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

INDEPENDENT SCHOOL DISTRICT NO. 264 (HERMAN-NORCROSS COMMUNITY SCHOOL), MINNESOTA (Grant, Traverse and Stevens Counties)

(Minnesota School District Credit Enhancement Program)

\$7,850,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2023A

PROPOSAL OPENING: November 14, 2023, 9:30 A.M., C.T.

CONSIDERATION: Not later than 11:59 P.M., C.T. on November 14, 2023 (PARAMETERS RESOLUTION)

PURPOSE/AUTHORITY/SECURITY: The \$7,850,000* General Obligation Facilities Maintenance Bonds, Series 2023A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and Minnesota Statutes, Section 123B.595, as amended, by Independent School District No. 264 (Herman-Norcross Community School), Minnesota (the "District") to provide funds for health and safety projects included in the District's ten-year facility plan approved by the Commissioner of Education. The Bonds will be general obligations of the District for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Kennedy & Graven, Chartered, Minneapolis, Minnesota.

DATE OF BONDS: December 7, 2023

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2025	\$175,000	2032	\$340,000	2039	\$475,000
2026	230,000	2033	360,000	2040	500,000
2027	245,000	2034	375,000	2041	520,000
2028	280,000	2035	395,000	2042	550,000
2029	295,000	2036	415,000	2043	575,000
2030	310,000	2037	430,000	2044	605,000
2031	325,000	2038	450,000		

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

TERM BONDS: See "Term Bond Option" herein.

INTEREST: February 1, 2025 and semiannually thereafter.

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

MINIMUM PROPOSAL: \$7,850,000.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$157,000 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation.

BOND COUNSEL: Kennedy & Graven, Chartered.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

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

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

REPRESENTATIONS

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

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

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

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

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

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

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

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

CLOSING CERTIFICATES

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

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HERMAN-NORCROSS SCHOOL BOARD

		<u>Term Expires</u>
Bob Kramer	Board Chair	January 2025
Dan Perry	Vice Board Chair	January 2025
Amanda Kramer	Clerk	January 2027
Dana Blume	Treasurer	January 2025
Stephanie Allen	Member	January 2027
Todd Vipond	Member	January 2027

ADMINISTRATION

Rick Bleicher, Superintendent of Schools

Tracy Perry, 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. 264 (Herman-Norcross Community School), Minnesota (the "District") and the issuance of its \$7,850,000* General Obligation Facilities Maintenance Bonds, Series 2023A (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 ratifying the award and sale of the Bonds ("Ratifying Resolution") to be adopted by the School Board on November 15, 2023.

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 December 7, 2023. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2025, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2025 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

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

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

*Preliminary, subject to change.

OPTIONAL REDEMPTION

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

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

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

AUTHORITY; PURPOSE

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

ESTIMATED SOURCES AND USES*

Sources		
Par Amount of Bonds	\$7,850,000	
Reoffering Premium	<u>154,379</u>	
Total Sources		\$8,004,379
Uses		
Total Underwriter's Discount (1.500%)	\$117,750	
Costs of Issuance	73,895	
Deposit to Construction Fund	<u>7,812,734</u>	
Total Uses		\$8,004,379

*Preliminary, subject to change.

SECURITY

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

RATING

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

The District does not currently have an underlying rating however, it has requested an underlying rating on this issue from Moody's. 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 20, 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 has not been subject to any undertakings under the Rule, and therefore the District 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.

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

MUNICIPAL ADVISOR

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

MUNICIPAL ADVISOR AFFILIATED COMPANIES

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

INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 2022 have been audited by Brian D. Koehn, CPA, PLLC, Parkers Prairie, 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.

Impact of the Spread of COVID-19: The effects of the spread of COVID-19 and the government and private responses to the spread continue to rapidly evolve. COVID-19 has caused significant disruptions to the global, national and State economy. The extent to which the coronavirus impacts the District and its financial condition will depend on future developments, which are highly uncertain and cannot be predicted by the District, including the duration of the outbreak and measures taken to address the outbreak.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") provides for federal payments from the Coronavirus Relief Fund to the State for the discrete purpose of covering expenses directly incurred as a result of COVID-19 between March 1 and December 30, 2020. On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021, which provides local governments an additional \$130.2 billion through the Coronavirus Local Fiscal Recovery Fund. These funds can be used to mitigate increased expenditures, lost revenue and economic hardship related to the COVID-19 pandemic.

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 \$745,309,950¹

2022/23 Assessor's Estimated Market Value

	Grant County	Stevens County	Traverse County	Total
Real Estate	\$466,167,100	\$105,043,300	\$68,385,200	\$639,595,600
Personal Property	<u>3,730,700</u>	<u>4,333,900</u>	<u>4,392,600</u>	<u>12,457,200</u>
Total Valuation	<u>\$469,897,800</u>	<u>\$109,377,200</u>	<u>\$72,777,800</u>	<u>\$652,052,800</u>

2022/23 Net Tax Capacity

	Grant County	Stevens County	Traverse County	Total
Real Estate	\$3,998,656	\$880,153	\$580,683	\$5,459,492
Personal Property	<u>71,298</u>	<u>86,678</u>	<u>86,352</u>	<u>244,328</u>
Net Tax Capacity	\$4,069,954	\$966,831	\$667,035	\$5,703,820
Less: Power Line Adjustment ²	<u>(4,684)</u>	<u>0</u>	<u>0</u>	<u>(4,684)</u>
Taxable Net Tax Capacity	<u>\$4,065,270</u>	<u>\$966,831</u>	<u>\$667,035</u>	<u>\$5,699,136</u>

¹

According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the District is about 87.48% 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 \$745,309,950.

² Ten percent of the net tax capacity of certain high voltage transmission lines is removed when setting local tax rates. However, taxes are paid on the full value of these lines. The taxes attributable to 10% of value of these lines are used to fund a power line credit. Certain property owners receive a credit when the high voltage transmission line runs over their property.

2022/23 NET TAX CAPACITY BY CLASSIFICATION

	2022/23 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$203,251	3.56%
Agricultural	4,883,267	85.61%
Commercial/industrial	161,063	2.82%
Public utility	5,637	0.10%
Railroad operating property	130,876	2.29%
Non-homestead residential	61,096	1.07%
Commercial & residential seasonal/rec.	14,302	0.25%
Personal property	<u>244,328</u>	<u>4.28%</u>
 Total	 <u><u>\$5,703,820</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	Taxable Net Tax Capacity²	Percent Increase/Decrease in Estimated Market Value
2018/19	\$637,853,500	\$630,331,380	\$5,429,837	\$5,425,602	-0.31%
2019/20	628,525,800	620,939,936	5,392,202	5,387,598	-1.46%
2020/21	621,207,100	613,738,301	5,345,395	5,340,498	-1.16%
2021/22	612,726,000	605,184,857	5,337,725	5,332,809	-1.37%
2022/23	652,052,800	643,996,127	5,703,820	5,699,136	6.42%

¹ Net Tax Capacity includes power line values.

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

LARGEST TAXPAYERS

Taxpayer	Type of Property	2022/23 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Individual	Agricultural	\$121,675	2.13%
Cenex Harvest States	Commercial	120,468	2.11%
BNSF Railway Company	Railroad	117,310	2.06%
Alliance Pipeline LP	Utility	116,172	2.04%
Vipond Properties Family LLLP	Agricultural	89,053	1.56%
Individual	Agricultural	79,799	1.40%
Vipond Farms LLP	Agricultural	72,335	1.27%
Haney Ent, Inc.	Agricultural	71,712	1.26%
Evergreen Flats LLP	Agricultural	66,160	1.16%
Individual	Agricultural	<u>62,560</u>	<u>1.10%</u>
Total		\$917,244	16.08%

District's Total 2022/23 Net Tax Capacity \$5,703,820

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Largest Taxpayers have been furnished by Grant, Steven, and Traverse Counties.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedule following)

Total G.O. debt secured by taxes and state aids² (includes the Bonds)* \$7,850,000

*Preliminary, subject to change.

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

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

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. The District does not currently qualify for Long Term Facilities Maintenance Aid in the debt service fund.

Some school districts will also receive aid for debt service payments through the state School Building Bond Agricultural Credit, which is paid to school districts to offset a portion of certain bond levies (Minnesota Statutes, Section 273.1387). The reimbursement percentage 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 58.34% 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 Assessor's Estimated Market Value	\$745,309,950
Multiply by 15%	<u>0.15</u>
Statutory Debt Limit	\$111,796,493
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	<u>(7,850,000)</u>
Unused Debt Limit*	<u><u>\$103,946,493</u></u>

*Preliminary, subject to change.

Independent School District No. 264 (Herman-Norcross), Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 12/07/2023)

Facilities Maintenance Bonds
Series 2023A

Dated	12/07/2023							
Amount	\$7,850,000*							
Maturity	02/01							
Fiscal Year	Principal	Estimated	Total Principal	Total Interest	Total P & I	Principal	% Paid	Fiscal Year
Ending		Interest				Outstanding		Ending
2025	175,000	444,188	175,000	444,188	619,188	7,675,000	2.23%	2025
2026	230,000	377,500	230,000	377,500	607,500	7,445,000	5.16%	2026
2027	245,000	366,000	245,000	366,000	611,000	7,200,000	8.28%	2027
2028	280,000	353,750	280,000	353,750	633,750	6,920,000	11.85%	2028
2029	295,000	339,750	295,000	339,750	634,750	6,625,000	15.61%	2029
2030	310,000	325,000	310,000	325,000	635,000	6,315,000	19.55%	2030
2031	325,000	309,500	325,000	309,500	634,500	5,990,000	23.69%	2031
2032	340,000	293,250	340,000	293,250	633,250	5,650,000	28.03%	2032
2033	360,000	276,250	360,000	276,250	636,250	5,290,000	32.61%	2033
2034	375,000	258,250	375,000	258,250	633,250	4,915,000	37.39%	2034
2035	395,000	239,500	395,000	239,500	634,500	4,520,000	42.42%	2035
2036	415,000	221,725	415,000	221,725	636,725	4,105,000	47.71%	2036
2037	430,000	203,050	430,000	203,050	633,050	3,675,000	53.18%	2037
2038	450,000	182,625	450,000	182,625	632,625	3,225,000	58.92%	2038
2039	475,000	161,250	475,000	161,250	636,250	2,750,000	64.97%	2039
2040	500,000	137,500	500,000	137,500	637,500	2,250,000	71.34%	2040
2041	520,000	112,500	520,000	112,500	632,500	1,730,000	77.96%	2041
2042	550,000	86,500	550,000	86,500	636,500	1,180,000	84.97%	2042
2043	575,000	59,000	575,000	59,000	634,000	605,000	92.29%	2043
2044	605,000	30,250	605,000	30,250	635,250	0	100.00%	2044
	7,850,000	4,777,338	7,850,000	4,777,338	12,627,338			

* Preliminary, subject to change.

OVERLAPPING DEBT¹

Taxing District	2022/23 Taxable Net Tax Capacity	% In District	Total G.O. Debt ²	District's Proportionate Share
Counties of:				
Grant	\$18,695,790	21.7443%	\$3,716,277	\$808,078
Stevens	20,539,301	4.7072%	6,110,000	287,610
Traverse	18,266,675	3.6516%	1,710,000	62,442
City of:				
Herman	318,665	100.0000%	25,000	<u>25,000</u>
District's Share of Total Overlapping Debt				<u><u>\$1,183,131</u></u>

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value \$745,309,950	Debt/ Per Capita 881 ³
Direct G.O. Debt Secured By Taxes and State Aids*	\$7,850,000		
Less: Agricultural Credit ⁴	<u>(4,579,690)</u>		
Tax Supported General Obligation Debt*	\$3,270,310	0.44%	\$3,712.04
District's Share of Total Overlapping Debt	<u>\$1,183,131</u>	<u>0.16%</u>	<u>\$1,342.94</u>
Total*	<u><u>\$4,453,441</u></u>	<u><u>0.60%</u></u>	<u><u>\$5,054.98</u></u>

*Preliminary, subject to change.

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

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

³ Estimated 2022 population.

⁴ Based on current State law and statistics, the State of Minnesota is estimated to pay approximately 58.34% 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 \$4,579,690.

TAX LEVIES, COLLECTION AND RATES

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ¹	Total Collected Following Year	Collected to Date	% Collected
2018/19	\$380,626	\$376,461	\$380,493	99.97%
2019/20	242,002	240,468	241,645	99.85%
2020/21	306,754	304,010	306,047	99.77%
2021/22	247,837	245,314	245,314	98.98%
2022/23	375,675	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.² Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES³

	2018/19	2019/20	2020/21	2021/22	2022/23
I.S.D. No. 264 (Herman-Norcross)	4.149%	3.256%	3.812%	3.284%	3.767%
Grant County	41.996%	43.389%	44.254%	45.279%	43.221%
Stevens County	38.408%	38.694%	40.365%	40.711%	41.837%
Traverse County	33.090%	32.537%	33.714%	37.829%	35.025%
City of Herman	138.804%	136.216%	125.710%	92.119%	90.719%
City of Norcross	81.441%	71.652%	64.445%	61.362%	64.969%
Town of Delaware ⁴	4.936%	5.072%	5.125%	5.249%	4.844%
Grant County HRA	0.308%	0.306%	0.453%	0.446%	0.536%
Stevens County HRA	1.456%	1.468%	1.530%	1.577%	1.582%
Bois De Sioux Watershed	6.121%	4.659%	4.588%	4.717%	4.167%

Referendum Market Value Rates:

I.S.D. No. 264 (Herman-Norcross)	0.29605%	0.12853%	0.18214%	0.11253%	0.22583%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Grant, Stevens and Traverse Counties.

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

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

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

⁴ Representative town rate.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 28, including 11 non-licensed employees and 17 licensed employees (16 of whom are teachers). The District provides education for 94 students in grades kindergarten through twelve.

PENSIONS; UNIONS

Teachers' Retirement Association (TRA)

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

Public Employees' Retirement Association (PERA)

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

Recognized and Certified Bargaining Unit

Bargaining Unit	Expiration Date of Current Contract
Herman Education Association	June 30, 2023

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) shows a total OPEB liability of \$26,219 as of June 1, 2022. 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	3	48	40	91
2020/21	10	46	44	100
2021/22	9	37	47	93
2022/23	9	37	42	88
2023/24	10	39	45	94

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2024/25	5	40	43	88
2025/26	9	42	39	90
2026/27	7	48	34	89

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Herman Norcross Community School	1902	1949, 1958, 1973

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 August 31, 2023)

Fund	Total Cash and Investments
General	\$1,477,276
Food Service	8,597
Community Service	<u>48,213</u>
 Total Funds on Hand	 <u><u>\$1,534,086</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 2022 audited financial statements.

FISCAL YEAR ENDING JUNE 30					
COMBINED STATEMENT	2020 Audited	2021 Audited	2022 Audited	2022-23 Adopted Budget¹	2023-24 Adopted Budget²
Revenues					
Local property taxes	\$381,852	\$267,878	\$266,337	\$238,463	\$371,100
Other local and county revenues	73,116	47,772	69,824	64,168	207,568
Revenue from state sources	1,464,571	1,498,511	1,463,748	1,519,952	1,659,076
Revenue from federal sources	67,280	190,299	266,779	175,632	175,632
Total Revenues	<u>\$1,986,819</u>	<u>\$2,004,460</u>	<u>\$2,066,688</u>	<u>\$1,998,215</u>	<u>\$2,413,376</u>
Expenditures					
Current:					
Administration	\$276,034	\$282,683	\$257,868	\$313,954	\$328,371
District support services	25,699	22,549	34,380	24,000	14,306
Elementary and secondary regular instruction	815,871	837,899	941,718	860,120	1,045,064
Vocational education instruction	76,781	76,224	82,729	69,802	101,930
Special education instruction	150,516	155,687	217,426	224,103	279,197
Instructional support services	31,451	62,599	23,054	33,977	127,040
Pupil support services	99,443	134,160	183,732	151,326	180,563
Sites and buildings	223,145	290,433	389,035	318,922	357,589
Fiscal and other fixed cost programs	23,436	21,826	22,147	39,000	45,000
Total Expenditures	<u>\$1,722,376</u>	<u>\$1,884,060</u>	<u>\$2,152,089</u>	<u>\$2,035,204</u>	<u>\$2,479,060</u>
Excess of revenues over (under) expenditures	\$264,443	\$120,400	(\$85,401)	(\$36,989)	(\$65,684)
Other Financing Sources (Uses)					
Operating transfers in	\$0	\$0	\$0	\$0	\$0
Operating transfers out	(7,612)	(7,130)	0	0	0
Total Other Financing Sources (Uses)	<u>(7,612)</u>	<u>(7,130)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net changes in Fund Balances	\$256,831	\$113,270	(\$85,401)	(\$36,989)	(\$65,684)
General Fund Balance July 1	\$1,132,439	\$1,429,036	\$1,542,306		
Prior Period Adjustment	39,766	0	0		
Residual Equity Transfer in (out)	0	0	0		
General Fund Balance June 30	<u>\$1,429,036</u>	<u>\$1,542,306</u>	<u>\$1,456,905</u>		
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	\$22,631	\$14,234	\$16,871		
Restricted	157,712	189,117	158,914		
Assigned	0	0	24,695		
Unassigned	1,248,693	1,338,955	1,256,425		
Total	<u>\$1,429,036</u>	<u>\$1,542,306</u>	<u>\$1,456,905</u>		

¹ The 2022-2023 budget was adopted July 20, 2022.

² The 2023-24 budget was adopted on July 19, 2023.

GENERAL INFORMATION

LOCATION

The District, with a 2020 U.S. Census population of 872 and a 2022 population estimate of 881, and comprising an area of 204.49 square miles, is located approximately 180 miles northwest of the Minneapolis-St. Paul, Minnesota metropolitan area.

LARGER EMPLOYERS¹

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
I.S.D. No. 264 (Herman-Norcross Community School)	Elementary and secondary education	28
Big Whitey's Bar & Grill	Full-service restaurant	17
ARCO/AJ's Gas Station	Convenience store	13
Herman Norcross AG Center, Inc.	Fertilizers & Grain elevator	10
Lake Region Hospital	Clinic	8
Cardwell Trucking LLC	Specialized freight trucking	8
Wagner Company Excavating	Excavating contractors	7
Titan Machinery	Construction equipment supplier	6
USPS	United States Postal Service	4
Ranney-Bainbridge Funeral Home	Funeral homes and services	3

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

¹ This represents full time staff and 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. Seasonal employment is not included.

U.S. CENSUS DATA

Population Trend: The District

2010 U.S. Census population	993
2020 U.S. Census population	872
Percent of Change 2010 - 2020	-12.19%
2022 State Demographer Estimate	881

Income and Age Statistics

	The District	Grant County	State of Minnesota	United States
2021 per capita income	\$37,049	\$33,891	\$41,204	\$37,638
2021 median household income	\$71,667	\$60,781	\$77,706	\$69,021
2021 median family income	\$84,545	\$74,662	\$98,356	\$85,028
2021 median gross rent	\$518	\$711	\$1,081	\$1,163
2021 median value owner occupied units	\$124,700	\$146,600	\$250,200	\$244,900
2021 median age	46.3 yrs.	44.4 yrs.	38.2 yrs.	38.4 yrs.

	State of Minnesota	United States
District % of 2021 per capita income	89.92%	98.44%
District % of 2021 median family income	85.96%	99.43%

Source: 2010 and 2020 Census of Population and Housing, and 2021 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (<https://data.census.gov/cedsci>) 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>	
	Grant County	Grant County	State of Minnesota	State of Minnesota
2019	3,176	4.5%	3.3%	
2020	3,195	5.4%	6.3%	
2021	3,139	4.0%	3.8%	
2022	3,165	2.9%	2.7%	
2023, August	3,215	3.2%	3.2%	

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.

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INDEPENDENT AUDITORS' REPORT

To the School Board of
Independent School District #264
Herman, Minnesota

Report on the Audit of the Financial Statements

Opinions

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District #264 as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Independent School District #264's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District #264, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Independent School District #264 and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Independent School District #264'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

My 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 my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- 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 Independent School District #264'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Independent School District #264's ability to continue as a going concern for a reasonable period of time.

School Board of
Independent School District #264

I am 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 I 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, General Fund budgetary comparison information, Schedule of Changes in Net OPEB Liability and Related Ratios, Schedule of Employer Contributions – OPEB, and schedules of Proportionate Share of Net Pension Liability and Employer Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District #264's basic financial statements. The accompanying combining nonmajor fund financial statements, and the Uniform Financial Accounting and Reporting Standards Compliance Table, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory sections but does not include the basic financial statements and my auditor's report thereon. My opinions on the basic financial statements do not cover the other information, and I do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 22, 2022, on my consideration of the Independent School District #264's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Independent School District #264's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District #264's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated December 22, 2022, on my consideration of the District's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for School Districts. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with Office of the State Auditor's Minnesota Legal Compliance Audit Guide for School Districts in considering the District's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.

Brian D. Koehn, CPA, PLLC

Brian D. Koehn, CPA, PLLC
Parkers Prairie, Minnesota
December 22, 2022

FUND FINANCIAL STATEMENTS

**INDEPENDENT SCHOOL DISTRICT #264
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2022**

ASSETS	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and Cash Equivalents	\$ 1,481,528	\$ 75,653	\$ 1,557,181
Receivables			
Current Property Taxes	88,752	9,390	98,142
Delinquent Property Taxes	1,378	141	1,519
Due from Other Districts	5,245	-	5,245
Due from Other Governments	198,846	1,979	200,825
Prepaid Items	16,871	236	17,107
Inventories	-	6,474	6,474
Total Assets	<u>1,792,620</u>	<u>93,873</u>	<u>1,886,493</u>
 LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Account Payable	25,489	747	26,236
Due to Other Governments	44,234	-	44,234
Salaries Payable	177,966	12,863	190,829
Total Liabilities	<u>247,689</u>	<u>13,610</u>	<u>261,299</u>
 DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue	1,378	141	1,519
Property Taxes Levied for			
Subsequent Year	86,648	23,536	110,184
Total Deferred Inflows of Resources	<u>88,026</u>	<u>23,677</u>	<u>111,703</u>
 FUND BALANCES			
Nonspendable	16,871	6,710	23,581
Restricted for Specific Purposes	158,914	50,179	209,093
Assigned to Specific Purposes	24,695	-	24,695
Unassigned	1,256,425	(303)	1,256,122
Total Fund Balances	<u>1,456,905</u>	<u>56,586</u>	<u>1,513,491</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 1,792,620</u>	 <u>\$ 93,873</u>	 <u>\$ 1,886,493</u>

**INDEPENDENT SCHOOL DISTRICT #264
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022**

Fund Balances - Total Governmental Funds \$ 1,513,491

Amounts reported for governmental activities in the statements of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital Assets	\$ 1,624,236	
Accumulated Depreciation	(1,206,223)	
		418,013

OPEB (Obligations) Assets are not due and payable in the current period therefore are not reported in the funds.

OPEB Liability	(26,219)	
Deferred Outflows - OPEB	7,428	
Deferred Inflows - OPEB	(8,925)	
		(27,716)

The net pension liability and related inflows/outflows represent the allocation of the pension obligations of the State-wide pension plans to the District. Such balances are not reported in the funds.

Net Pension Liability	(748,712)	
Deferred Inflows - Pensions	(962,201)	
Deferred Outflows - Pensions	469,227	
		(1,241,686)

Delinquent taxes and special assessments receivable are earned, but not available in the current period. Therefore, they are recorded as a deferred inflows of resources in the funds but are part of net assets.

1,519

Total Net Position - Governmental Activities \$ 663,621

**INDEPENDENT SCHOOL DISTRICT #264
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022**

	General	Other Governmental Funds	Totals
REVENUES			
Local Property Tax Levies	\$ 266,337	\$ 23,035	\$ 289,372
Other Local and County Sources	69,824	15,577	85,401
State Sources	1,463,748	22,207	1,485,955
Federal Sources	266,779	97,191	363,970
Sales and Other Conversion of Assets	-	1,532	1,532
Total Revenue	<u>2,066,688</u>	<u>159,542</u>	<u>2,226,230</u>
EXPENDITURES			
Administration	257,868	-	257,868
District Support Services	34,380	-	34,380
Regular Instruction	941,718	-	941,718
Vocational Instruction	82,729	-	82,729
Special Education Instruction	217,426	-	217,426
Community Education and Services	-	81,863	81,863
Instructional Support Services	23,054	-	23,054
Pupil Support Services	183,732	78,864	262,596
Sites and Buildings	389,035	-	389,035
Fiscal and Other Fixed-Cost Programs	22,147	-	22,147
Total Expenditures	<u>2,152,089</u>	<u>160,727</u>	<u>2,312,816</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(85,401)	(1,185)	(86,586)
Fund Balance - Beginning of year	<u>1,542,306</u>	<u>57,771</u>	<u>1,600,077</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,456,905</u></u>	<u><u>\$ 56,586</u></u>	<u><u>\$ 1,513,491</u></u>

INDEPENDENT SCHOOL DISTRICT #264
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

Net Change in Fund Balances - Total Governmental \$ (86,586)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:

Capital Outlay	\$ 88,673	
Loss on Disposal of Capital Assets	-	
Depreciation Expense	<u>(42,705)</u>	45,968

In the statement of activities compensated absences and OPEB obligations are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used

Change in OPEB Liability and Related Deferrals 3,763

Delinquent property taxes are receivable, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. The increase (decrease) in the current period is:

Current Period Balance	1,519	
Prior Year Balance	<u>(1,868)</u>	
Current Period Effect		(349)

Net Pension liability does not represent the impending use of current resources. Therefore the change in this liability and related deferrals is not reported in the governmental funds.

455,301

Change in Net Position - Governmental Activities \$ 418,097

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

Independent School District No. 264, Herman Public Schools, Herman, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. REPORTING ENTITY

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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

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

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the extracurricular student activity accounts are included in these financial statements.

INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

C. DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The District-Wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District. Generally, the effect of interfund activity has been removed from the District-Wide financial statements.

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 internally directed revenues are reported as general revenues.

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. FUND FINANCIAL STATEMENT PRESENTATION

Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining non-major governmental funds is reported in a single column in the fund financial statements.

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

- Revenue Recognition - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

- Recording of Expenditures- Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

The District reports deferred revenue on its statement of net position and balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Description of Funds

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

Major Governmental Fund

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. It 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 health and safety projects.

Non-major Governmental Funds

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

Community Service Fund - The community service fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, extended day programs, or other similar services.

E. OTHER SIGNIFICANT ACCOUNTING POLICIES

Budgeting

An operating budget is adopted by July 1 of each fiscal year for all governmental funds on the same modified accrual basis used to reflect actual revenues and expenditures. The superintendent is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Cash and Cash Equivalents

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 respective funds on the basis of applicable cash balance participation by each fund.

Short-term, highly liquid debt instruments (including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Receivables

All receivables are shown net of any allowance for uncollectibles. No allowances for uncollectibles have been recorded. The only receivables not expected to be collected within one year are property taxes receivable.

Inventories

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

Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District.

INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-Wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 50 years.

Capital assets not being depreciated include land.

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

Deferred outflows/inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred Inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

Unpaid vacation and sick leave do not vest and therefore is not accrued. Vacation and sick pay are recognized when paid and unused balances are used in severance calculations.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

Other Post-employment Benefits and Pension Benefits

In addition to retirement benefits, the District provides post-retirement medical insurance benefits to teachers & administrators in accordance with their master employment agreement. The teachers are responsible for funding a portion of the cost of the health insurance and an implicit rate subsidy still exists. See note 10 for further information. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense for plans administered under a trust, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the 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 benefits payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments for PERA 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. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2016. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teachers Retirement Fund Association in 2015.

Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2022.

Fund Balance Classifications

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

Nonspendable - consists of amounts that are not in spendable form, such as inventory and prepaid items.

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

Committed - consists of internally imposed constraints. These constraints are established by a Resolution of the School Board.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the School Board and/or management. Pursuant to Board Resolution, the District's Superintendent is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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

When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

The School Board has formally adopted a fund balance policy for the general fund. The District's policy is to maintain a minimum unassigned fund balance of 2 months operating expenditures for cash-flow timing needs.

Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the District-Wide and fiduciary fund financial statements. Net investment in capital assets, net of related debt 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 District-Wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget

The budget was prepared on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. The budget presented in this report in the budget to actual is presented in accordance with generally accepted accounting principles.

Excess of Expenditures Over Appropriations

The general fund had an excess of expenditures over budget of \$152,944. This was deemed necessary by the School Board.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 3 DEPOSITS

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board. All such depositories are members of the Federal Reserve System.

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

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

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

At June 30, 2022, all deposits were insured or collateralized by securities held by the District's agent in the District's name. At June 30, 2022, the District does not have any investments.

NOTE 4 DUE FROM OTHER GOVERNMENTAL UNITS

Amounts receivable from other governments as of June 30, 2022, include:

Fund	Federal	State
Major Funds		
General	\$ 136,838	\$ 62,008
Non-Major Funds		
Food Service	-	472
Community Service	-	1,507
	<u> </u>	<u> </u>
Total	<u>\$ 136,838</u>	<u>\$ 63,987</u>

INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 43,555	\$ -	\$ -	\$ 43,555
Capital Assets, Being Depreciated:				
Buildings and Improvements	947,455	88,676	-	1,036,131
Land Improvements	164,868	-	-	164,868
Equipment	379,682	-	-	379,682
Total Capital Assets, Being Depreciated	<u>1,492,005</u>	<u>88,676</u>	<u>-</u>	<u>1,580,681</u>
Total Capital Assets	1,535,560	88,676	-	1,624,236
Less: Accumulated Depreciation				
Buildings and Improvements	745,030	2,220	-	747,250
Land Improvements	139,406	16,642	-	156,048
Equipment	279,082	23,843	-	302,925
Total Accumulated Depreciation	<u>1,163,518</u>	<u>42,705</u>	<u>-</u>	<u>1,206,223</u>
Capital Assets, Net	<u>\$ 372,042</u>	<u>\$ 45,971</u>	<u>\$ -</u>	<u>\$ 418,013</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
District Support Services	\$ 908
Regular Instruction	252
Pupil Support Services	22,151
Sites and Buildings	19,394
Total Depreciation Expense	<u>\$ 42,705</u>

NOTE 6 LONG-TERM DEBT REQUIREMENTS

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2022.

	Outstanding July 1, 2021	Additions	Deletions	Outstanding June 30, 2022
Net Pension Obligations	1,118,581	-	369,869	748,712
OPEB Obligations	30,097		3,878	26,219
Total Indebtedness	<u>\$ 1,148,678</u>	<u>\$ -</u>	<u>\$ 373,747</u>	<u>\$ 774,931</u>

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

Other Post-Employment Benefits

A. Plan Description

All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees who have reached age 55 with at least 3 years of service. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. The retiree health plan does not issue a publicly available financial report.

B. Benefits Provided

The contract groups have access to other post-retirement benefits of blended medical premiums. The implicit rate subsidy is only until Medicare eligibility.

C. Employees Covered by Benefit Terms

At the valuation date of July 1, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees -	28
	29

D. Total OPEB Liability

The District's total OPEB liability of \$26,219 was measured as of July 1, 2021 and was determined by an actuarial valuation as of that date.

E. Actuarial Assumptions

Inflation	2.00%	
Salary Increases	Service Graded from 2.85% to 8.85%	
Discount Rate	2.10%	
Healthcare cost trend rates	6.5% as of 7-1-2021 Grading to 4.0%	
Retiree plan participation	Future retirees electing coverage:	
	Pre-65 subsidy available	N/A
	Pre-65 Subsidy not available	20%
Percent or married retirees electing spouse coverage	Spouse Subsidy available	N/A
	Spouse Subsidy not available	25%

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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 3.10% to 2.10%.
- These changes increased the liability \$1,881.

F. Changes in Total OPEB Liability

Balance at June 30, 2021	\$	30,097
Service Cost		4,188
Interest Cost		963
Assumption Changes		1,881
Diff Between Expected and Actual Experience		(4,387)
Benefit Payments		<u>(6,523)</u>
Net Change		<u>(3,878)</u>
Balance at June 30, 2022	\$	<u>26,219</u>

G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	1% decrease in Discount Rate	Discount Rate	1% increase in discount rate
Discount Rate	2.10%	3.10%	4.10%
Total OPEB Liability	\$ 27,630	\$ 26,219	\$ 24,821

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates:

	1% decrease in Discount Rate	Discount Rate	1% increase in discount rate
	5.5%	6.5%	7.5%
Medical Trend Rate	Decreasing to 5% then 4%	Decreasing to 5% then 4%	Decreasing to 5% then 4%
Total OPEB Liability	\$ 29,404	\$ 26,219	\$ 23,521

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

For the year ended June 30, 2022, the District recognized OPEB expense of \$2,095. At June 30, 2022, the District reported deferred outflows of resources related to OPEB from employer contributions made after the measurement date of \$7,4128, and the District reported deferred inflows of resources related to liability gains and assumption changes of \$8,925.

\$5,861 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2022.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 7 FUND BALANCES AND NET POSITION

Certain portions of fund balances are reserved 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.

At June 30, 2022 the District has recorded the following restrictions of net position for the following purposes:

Fund Balances	General Fund	Nonmajor Funds		Total
		Food Service Fund	Community Service Fund	
Nonspendable for				
Prepaid Expenditures	\$ 16,871	\$ 236	\$ -	\$ 17,107
Inventory	-	6,474	-	6,474
Restricted for				
Operating Capital	58,347	-	-	58,347
Safe School Crime	38,022	-	-	38,022
Long Term Facilities Maintenance	46,781	-	-	46,781
Medical Assistance	15,764	-	-	15,764
Food Service	-	28,340	-	28,340
Community Education	-	-	34,741	34,741
ECFE	-	-	61,379	61,379
School Readiness	-	-	(74,281)	(74,281)
Student Activities	24,695	-	-	24,695
Unassigned	1,256,425	-	(303)	1,256,122
 Total Fund Balance	 <u>\$ 1,456,905</u>	 <u>\$ 35,050</u>	 <u>\$ 21,536</u>	 <u>\$ 1,513,491</u>

NOTE 8 INTERFUND TRANSFERS

There were no interfund transfers for the year ended June 30, 2022.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 9 DEFINED BENEFIT PENSION PLAN - PERA

Summary of Significant Accounting Policies

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

A. Plan Description

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

General Employees Retirement Plan: (accounted for in the General Employees Fund)

All full-time and certain part-time employees of the [entity's name] are covered by the General Employees Plan. 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 accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. 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 #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

C. Contributions

Minnesota Statutes Chapter 353 sets 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 6.50 percent of their annual covered salary in fiscal year 2021 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2022, were \$20,318. 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, 2022, the District reported a liability of \$ 162,288 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 district 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 \$4,935.

The net pension liability was measured as of June 30, 2021, 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, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was .0035 percent at the end of the measurement period and .0038 percent for the beginning of the period.

District's Proportionate share of the net pension liability	\$	162,277
State's proportionate share of the net pensino liability associated with the district		4,935
total	\$	167,212

For the year ended June 30, 2022, the District recognized pension expense of \$18,130 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$462 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.

At June 30, 2022, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$ -		\$ 4,391
Change in actuarial assumptions	99,083		
Net Difference between projected and actual earnings on plan inv			153,329
Changes in Proportion	13,490		
Contributions paid subsequent to the measurement date	19,862		-
Total	\$ 132,435		\$ 157,720

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

The \$19,862 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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2023	\$ 3,620
2024	\$ 3,620
2025	\$ 30,666
2026	\$ -
2027	\$ -

E. Long-Term Expected Return on Investment

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Fixed Income	25.00%	0.75%
Private Markets	25.00%	5.90%
Total	100.00%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were 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.

G. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021, 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 percent. 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 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan, 2.25 percent for the Police and Fire Plan, and 2.25 percent for the Correctional Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan and 2 percent for the Correction Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service. In the Correctional Plan, salary growth assumptions range from 11.0 percent at age 20 to 3.0 percent at age 60.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan and the Correctional Plans are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are 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. The most recent four-year experience studies for the Police and Fire and the Correctional Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.

The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

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

H. Pension Liability Sensitivity

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

District's Proportionate share of NPL		
1% decrease	Current	1% increase
5.50%	6.50%	7.50%
\$ 330,962	\$ 162,277	\$ 23,860

I. Pension Plan Fiduciary Net Position

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

NOTE 10 DEFINED PENSION PLAN – TRA

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expenses, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This 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 in 2015.

A. Plan Description

The teachers Retirement Association (TRA) is an administrator of 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 school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State Colleges and Universities. Educators first hired by Minnesota State may elect TRA coverage or coverage through Define Contribution Plan (DCR) administered by the State of Minnesota.

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 o the Tier I or Tier II benefits as described.

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

With these provisions

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

Or

Tier II Benefits

For the years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 percent per year for Basic members applies. 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 benefic calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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, 2020, June 30, 2021, and June 30, 2022 were:

	Ending June 30, 2020		Ending June 30, 2021		Ending June 30, 2022	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.92%	11.00%	12.13%	11.00%	12.34%
Coordinated	7.50%	7.92%	7.50%	8.13%	7.50%	8.34%

The following is a reconciliation of employer contributions in TRA’s CAFR “Statement of Changes in Fiduciary Net Position” to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

Employer Contributions Reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$	448,829,000
Add employer contributions not related to future contribution efforts		379,000
Deduct TRA's contributions not Included in allocation		(538,000)
Total Employer contributions		448,670,000
Total Non-Employer contributions		37,840,000
Employer contributions reported in schedule of employer and non-employer pension allocations	\$	486,510,000

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.

D. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2021
Experience Study	6/5/2019 (demographic assumptions) November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Investment Rate of Return	7.00%
Price Inflation	2.50%
Wage Inflation	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 six years and
Post-retirement	RP-2014 white collar employee table, male and female rates set back
Post-disability	RP 2014 disabled retiree mortality, 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 following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35.50%	5.10%
International Equity	17.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	20.00%	0.75%
Unallocated Cash	2.00%	0.00%
Total	100.00%	

The TRA Actuary has determined the average of the expected remaining service lives of all members for fiscal year 2022 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.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

Changes in actuarial assumptions since the 2020 valuation:

- For GASB Valuation:
 - The investment return assumption was changed from 7.50 percent to 7.00 percent.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. The discount rate used to measure the TPL at the Prior Measurement Date was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2021 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, 2022, Herman - ISD #264 reported a liability of \$586,424 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Herman - ISD #264's proportion of the net pension liability was based on Herman - ISD #264'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 0.0134 percent at the end of the measurement period and 0.0123 percent for the beginning of the year.

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

District's proportionate share of net pension liability	\$	586,424
State's proportionate share of the net pension liability associated with the district	\$	49,356

For the year ended June 30, 2022, the district recognized pension expense of \$6,012. It also recognized (\$553) as an increase to pension expense for the support provided by direct aid.

On June 30, 2021, ISD #264 had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$ -		\$ 7,338
Net Difference between projected and actual earnings on plan inv			537,879
Changes in proportion	67,724		
Change in Assumptions	214,303		-
Contributions paid subsequent to the measurement date	78,803		-
Total	\$ 360,830		\$ 545,217

Deferred outflows of resources and (Deferred inflows of resources) will be recognized in pension expense as follows:

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

Year ended June 30,	Pension Expense Amount
2022	\$ (79,531)
2023	\$ (79,531)
2024	\$ (79,531)
2025	\$ (79,531)
2026	\$ 54,937

G. Pension Liability Sensitivity

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

District's Proportionate share of NPL		
1% decrease 6.00%	Current 7.00%	1% increase 8.00%
\$ 1,184,605	\$ 586,424	\$ 95,868

The ISD #264'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 report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-40000; or by calling 651-296-2409 or 800-657-3669.

I. Subsequent Events and the COVID-19 Pandemic Subsequent to Year End

The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on TRA's discount rate as well as the value of the Plan's investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2022.

**INDEPENDENT SCHOOL DISTRICT #264
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 11 COMMITMENTS AND CONTINGENCIES

Federal Revenue

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

Contingencies

The District is not aware of any pending or threatened litigation.

NOTE 12 ISSUED BUT NOT YET EFFECTIVE ACCOUNTING PRONOUNCEMENTS

The third statement issued but not yet implemented that will affect the District is Statement No. 94, Public- Private and Public-Public Partnerships and Availability Payment Arrangements. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement will be implemented at the District in the year ended June 30, 2023.

FORM OF LEGAL OPINION

(See following pages)



Offices in
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Minneapolis, MN 55402
(612) 337-9300 telephone
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§ _____
INDEPENDENT SCHOOL DISTRICT NO. 264
(HERMAN NORCROSS COMMUNITY SCHOOL)
GRANT, STEVENS, AND TRAVERSE COUNTIES, MINNESOTA
GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS
SERIES 2023A

We have acted as bond counsel to Independent School District No. 264 (Herman Norcross Community School), Grant, Stevens, and Traverse Counties, Minnesota (the “Issuer”), in connection with the issuance by the Issuer of its General Obligation Facilities Maintenance Bonds, Series 2023A (the “Bonds”), originally dated December __, 2023, 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 20, 2023, obligates the Issuer to be bound by the provisions of Minnesota Statutes, Section 126C.55. We express no opinion as to the enforceability of the provisions of that law against the State of Minnesota (the "State") in the absence of appropriated and available funds to pay the obligations of the State thereunder.

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

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

Dated _____, 2023, 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. 264
(HERMAN NORCROSS COMMUNITY SCHOOL)
GRANT, STEVENS, AND TRAVERSE COUNTIES, MINNESOTA
GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS
SERIES 2023A

CONTINUING DISCLOSURE CERTIFICATE

December __, 2023

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Independent School District No. 264 (Herman Norcross Community School), Grant, Stevens, and Traverse Counties, Minnesota (the “District”), in connection with the issuance of its General Obligation Facilities Maintenance Bonds, Series 2023A (the “Bonds”), in the original aggregate principal amount of \$ _____. The Bonds are being issued pursuant to a resolution adopted by the School Board of the District (the “Resolution”). The Bonds are being delivered to _____ [, as syndicate manager] (the “Purchaser”), on the date hereof. Pursuant to the Resolution, the District has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The District hereby covenants and agrees as follows:

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

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

“Annual Report” means the District’s Audited Financial Statements.

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

“Bonds” means the General Obligation Facilities Maintenance Bonds, Series 2023A, issued by the District in the original aggregate principal amount of \$ _____.

“Disclosure Certificate” means this Continuing Disclosure Certificate.

“District” means Independent School District No. 264 (Herman Norcross Community School), Grant, Stevens, and Traverse 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 _____, 2023, which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

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

“Fiscal Year” means the fiscal year of the District.

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

“GASB” means the Governmental Accounting Standards Board.

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

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

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

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

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

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

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

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

Section 3. Provision of Annual Report.

(a) The District shall provide to the Annual Report to the Repository not later than twelve (12) months after the end of the Fiscal Year commencing with the year that ends June 30, 2023. The Annual Report may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

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

Section 4. Reporting of Material Events.

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

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

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

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

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

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

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

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

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

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 264
(HERMAN NORCROSS COMMUNITY SCHOOL),
GRANT, STEVENS, AND TRAVERSE COUNTIES,
MINNESOTA**

Board Chair

Clerk

TERMS OF PROPOSAL

**\$7,850,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2023A
INDEPENDENT SCHOOL DISTRICT NO. 264
(HERMAN-NORCROSS COMMUNITY SCHOOL), MINNESOTA**

Proposals for the purchase of \$7,850,000* General Obligation Facilities Maintenance Bonds, Series 2023A (the "Bonds") of the Independent School District No. 264 (Herman-Norcross Community School), 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 **PARITY**, in the manner described below, until 9:30 A.M. Central Time, on November 14, 2023, at which time they will be opened, read and tabulated. The School Board adopted a resolution on September 20, 2023 (the "Parameters Resolution"), which authorized the Superintendent or Business Manager and a board member to accept a bid for the Bonds if the parameters and conditions set forth in the Parameters Resolution are satisfied. If the parameters and conditions set forth in the Parameters Resolution are not met through the competitive bids received on November 14, 2023, neither the Superintendent, Business Manager or Board Member will have the authority to accept a bid for the Bonds, and all bids for the Bonds will be rejected.

AUTHORITY; PURPOSE; SECURITY

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and Minnesota Statutes, Section 123B.595, as amended, by the District, to provide funds for health and safety projects included in the District's ten-year facility plan approved by the Commissioner of Education. The Bonds will be general obligations of the District for which its full faith and credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated December 7, 2023, 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	\$175,000	2032	\$340,000	2039	\$475,000
2026	230,000	2033	360,000	2040	500,000
2027	245,000	2034	375,000	2041	520,000
2028	280,000	2035	395,000	2042	550,000
2029	295,000	2036	415,000	2043	575,000
2030	310,000	2037	430,000	2044	605,000
2031	325,000	2038	450,000		

ADJUSTMENT OPTION

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

TERM BOND OPTION

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

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2025, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2025 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

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

PAYING AGENT

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

OPTIONAL REDEMPTION

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

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

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

DELIVERY

On or about December 7, 2023, 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 \$7,850,000 plus accrued interest on the principal sum of \$7,850,000 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 09:30 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 \$157,000 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

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

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

AWARD

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

BOND INSURANCE

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

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

CUSIP NUMBERS

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

CONTINUING DISCLOSURE

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

NEW ISSUE PRICING

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

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

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

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

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

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

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

- (1) the close of the fifth (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. 264
(Herman-Norcross Community Schools), Minnesota

PROPOSAL FORM

The School Board
Independent School District No. 264 (Herman-Norcross Community School), Minnesota (the "District")

November 14, 2023

RE: \$7,850,000* General Obligation Facilities Maintenance Bonds, Series 2023A (the "Bonds")
DATED: December 7, 2023

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 \$7,850,000) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due	2025	_____ % due	2032	_____ % due	2039
_____ % due	2026	_____ % due	2033	_____ % due	2040
_____ % due	2027	_____ % due	2034	_____ % due	2041
_____ % due	2028	_____ % due	2035	_____ % due	2042
_____ % due	2029	_____ % due	2036	_____ % due	2043
_____ % due	2030	_____ % due	2037	_____ % due	2044
_____ % due	2031	_____ % due	2038		

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 \$157,000 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about December 7, 2023.

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 December 7, 2023 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. 264 (Herman-Norcross Community School), Minnesota, on November 14, 2023.

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