

In the opinion of Bond Counsel, under present federal and State of Minnesota laws, regulations and rulings, the interest to be paid on the Bonds of this offering is not includible in gross income of the recipient for United States or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. See "Tax Exemption" herein for a discussion of federal tax legislation.

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

New Issue

Rating Application Made: Standard & Poor's

**(Minnesota School District Credit Enhancement Program)
PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 8, 2015**

**INDEPENDENT SCHOOL DISTRICT NO. 763 (MEDFORD), MINNESOTA
(Steele, Rice and Waseca Counties)**

**\$11,325,000* GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS,
SERIES 2015A**

PROPOSAL OPENING: October 19, 2015, 11:00 A.M., C.T. **CONSIDERATION:** October 19, 2015, 7:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$11,325,000* General Obligation School Building Refunding Bonds, Series 2015A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 475.67, by Independent School District No. 763 (Medford), Minnesota (the "District"), for the purpose of effecting a current refunding of certain outstanding general obligations of the District as more fully described herein. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota.

DATE OF BONDS: November 18, 2015

MATURITY: February 1 as follows:

| <u>Year</u> | <u>Amount*</u> | <u>Year</u> | <u>Amount*</u> | <u>Year</u> | <u>Amount*</u> |
|-------------|----------------|-------------|----------------|-------------|----------------|
| 2017 | \$550,000 | 2022 | \$700,000 | 2027 | \$825,000 |
| 2018 | 635,000 | 2023 | 725,000 | 2028 | 850,000 |
| 2019 | 650,000 | 2024 | 745,000 | 2029 | 880,000 |
| 2020 | 660,000 | 2025 | 775,000 | 2030 | 915,000 |
| 2021 | 680,000 | 2026 | 795,000 | 2031 | 940,000 |

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

TERM BONDS: See "Term Bond Option" herein.

INTEREST: August 1, 2016 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing February 1, 2026 and thereafter are subject to call for prior redemption on February 1, 2025 and any date thereafter, at par.

MINIMUM PROPOSAL: \$11,234,400.

GOOD FAITH DEPOSIT: A cashier's check in the amount of \$226,500 may be submitted contemporaneously with the proposal or, alternatively, a good faith deposit shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation, Roseville, Minnesota.

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

This Preliminary Official Statement will be further supplemented by an addendum specifying the offering prices, interest rates, aggregate principal amount, principal amount per maturity, anticipated delivery date, and Syndicate Manager and Syndicate Members, together with any other information required by law, and, as supplemented, shall constitute a "Final Official Statement" of the District with respect to the Bonds,



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 these 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 Syndicate Manager or Syndicate Members. 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 & Associates, Inc. ("Ehlers") 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 except as described herein and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers, payable entirely by the District, is contingent upon the sale of the issue.

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

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to General Rules and Regulations, Securities Exchange Act of 1934, Rule 15c2-12 Municipal Securities Disclosure (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the District for dissemination to potential customers. Its primary purpose is to disclose information regarding these 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 members of the legislative body and other public officials of the District as well as to prospective bidders for an objective review of its disclosure. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers 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 at least one business day prior to the sale.

Final Official Statement: Upon award of sale of these Bonds, the Preliminary Official Statement together with any previous addendum of corrections or additions will be further supplemented by an addendum specifying the offering prices, interest rates, aggregate principal amount, principal amount per maturity, anticipated delivery date, and Syndicate Manager and Syndicate Members, together with any other information required by law, and, as supplemented, shall constitute a "Final Official Statement" of the District with respect to the Bonds, as defined in the Rule. 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 these Bonds are exempt or required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of these Bonds, the purchaser (underwriter) 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 these Bonds and all times subsequent thereto up to and including the time of the delivery of these 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 these Bonds; (3) a certificate evidencing the due execution of these 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 these 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 these 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 these 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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BOARD OF EDUCATION

| | | <u>Term Expires</u> |
|----------------|------------------|---------------------|
| Bill Cronin | Chairperson | January 2019 |
| Jackie Berg | Vice Chairperson | January 2017 |
| Anne Hemann | Clerk | January 2017 |
| Gary Wiersma | Treasurer | January 2017 |
| Allison Janke | Director | January 2019 |
| Jennifer Jones | Director | January 2019 |
| Jon Sutherland | Director | January 2017 |

ADMINISTRATION

Richard Dahman, Superintendent of Schools

Lylia Iverson, Business Manager

PROFESSIONAL SERVICES

Knutson, Flynn & Deans, P.A., Bond Counsel, Mendota Heights, Minnesota

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota

(Other offices located in Pewaukee, Wisconsin, Chicago, Illinois and Denver, Colorado)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 763 (Medford), Minnesota (the "District") and the issuance of its \$11,325,000 General Obligation School Building Refunding Bonds, Series 2015A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the sale of the Bonds ("Award Resolution") to be adopted by the Board of Education on October 19, 2015.

Inquiries may be directed to Ehlers & 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 link to the Bond Sales 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 November 18, 2015. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2016, 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 MSRB. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2017 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** 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%.

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 resolution awarding the sale of the Bonds.

The District has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). 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, Bonds maturing on or after February 1, 2026 shall be subject to redemption prior to maturity on February 1, 2025 and on any date thereafter, at a price of par plus accrued interest.

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 fewer 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 by the District pursuant to Minnesota Statutes, Chapter 475 and Section 475.67, for the purpose of effecting a current refunding of the 2017 through 2031 maturities of the District's \$12,030,000 General Obligation School Building Refunding Bonds, Series 2006A, dated March 30, 2006 (the "Series 2006A Bonds").

Following are the maturities of the Series 2006A Bonds which are being refunded by this issue:

| Issue Being Refunded | Date of Refunded Issue | Call Date | Call Price | Maturities Being Refunded | Interest Rates | Principal to be Refunded | CUSIP Base 584258 |
|-----------------------------|-------------------------------|------------------|-------------------|----------------------------------|-----------------------|---------------------------------|--------------------------|
| Series 2006A Bonds | 3/30/06 | 2/01/16 | Par | 2017 | 4.00% | \$ 555,000 | CP0 |
| | | | | 2018 | 4.00% | 580,000 | CQ8 |
| | | | | 2019 | 4.00% | 605,000 | CR6 |
| | | | | 2020 | 4.00% | 625,000 | CS4 |
| | | | | 2021 | 4.125% | 650,000 | CT2 |
| | | | | 2022 | 4.125% | 680,000 | CU9 |
| | | | | 2023 | 4.125% | 710,000 | CV7 |
| | | | | 2024 | 4.25% | 740,000 | CW5 |
| | | | | 2025 | 4.25% | 775,000 | CX3 |
| | | | | 2026 | 4.25% | 805,000 | CY1 |
| | | | | 2027 | 4.25% | 845,000 | CZ8 |
| | | | | 2028 | 4.375% | 880,000 | DA2 |
| | | | | 2029 | 4.375% | 920,000 | DB0 |
| | | | | 2030 | 4.375% | 965,000 | DC8 |
| 2031 | 5.00% | <u>1,000,000</u> | DD6 | | | | |

Total Series 2006A Bonds Being Refunded \$11,335,000

Proceeds of the Bonds will be used to call and prepay the maturities described above and to pay all or most of the costs of issuance. The District will pay the principal and interest payment due on February 1, 2016 from the Debt Service Fund for the Series 2006A Bonds.

ESTIMATED SOURCES AND USES

| | | |
|-----------------------------------|----------------|---------------------|
| Sources | | |
| Par Amount of Bonds | \$11,325,000 | |
| Estimated Reoffering Premium | <u>160,798</u> | |
| Total Sources | | \$11,485,798 |
| Uses | | |
| Deposit to Current Refunding Fund | \$11,335,000 | |
| Contingency | 198 | |
| Discount Allowance | 90,600 | |
| Finance Related Expenses | <u>60,000</u> | |
| Total Uses | | \$11,485,798 |

SECURITY

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

RATING

The District will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a rating from Standard & Poor's. Standard & Poor's has a policy which assigns a minimum rating of "AA+" to issuers participating in the MNCEP. The "AA+" rating is based on the State of Minnesota's current "AA+" rating from Standard & Poor'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 will be requesting an underlying rating on this issue from Standard & Poor's.

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on September 14, 2015 (the "Resolution"), the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, 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) and will use 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.

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 warrant 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 purposes of subdivision are annually appropriated to the Department of Education from the state general fund."

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (hereinafter the "Rule"), the District shall covenant to take certain actions pursuant to a Resolution adopted by the Board of Education by entering into a Continuing Disclosure Undertaking (the "Disclosure Undertaking") for the benefit of holders, including beneficial holders. The Disclosure Undertaking requires the District to provide electronically or in the manner otherwise prescribed certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Disclosure Undertaking for this issue are set forth in Appendix D to be executed and delivered by the District at the time of delivery of the Bonds. Such Disclosure Undertaking will be in substantially the form attached hereto.

In the previous five years, the District believes it has complied in all material respects with its prior undertakings under the Rule. A failure by the District to comply with any Disclosure Undertaking will not constitute an event of default on this issue or any issue outstanding. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price. Due to widespread industry knowledge of bond insurance rating changes, bond insurance rating changes are not listed. Ehlers and Associates is currently engaged as disclosure dissemination agent for the District.

The District will file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system or any system that may be prescribed in the future. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, bond counsel to the District, and will accompany 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).

TAX EXEMPTION AND RELATED CONSIDERATIONS

In the opinion of Knutson, Flynn & Deans, P.A., as Bond Counsel, on the basis of laws in effect on the date of issuance of the Bonds, interest on the Bonds is not includible in gross income for federal income tax purposes or in taxable net income of individuals, estates and trusts for Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. Certain provisions of the Internal Revenue Code of 1986, as amended (the Code), however, impose continuing requirements that must be met after the issuance of the Bonds in order for interest thereon to be and remain not includible in federal gross income and in Minnesota taxable net income. Noncompliance with such requirements by the Issuer may cause the interest on the Bonds to be includible in federal gross income and in Minnesota taxable net income, retroactive to the date of issuance of the Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes includible in federal gross income or Minnesota taxable net income.

Interest on the Bonds is not an item of tax preference includible in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includible in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax and the environmental tax imposed by Section 59A of the Code. Interest on the Bonds may be includible in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includible in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. 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) of the Code must be reduced by an amount equal to fifteen percent of the interest on the Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers or Bondholders should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income.

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will *not* designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) 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 will not 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 Municipal Securities Rulemaking Board as a Municipal Advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("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 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 this issuer, have or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the issuer under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the District as of June 30, 2014, and for the Fiscal Year then ended have been audited by CliftonLarsonAllen LLP, 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 the Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of these 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 of this offering 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. 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. Past and 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 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 Obligations for resale prior to maturity.

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

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

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 affect 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.

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 | 2012/13 | 2013/14 | 2014/15 |
|--|--|--|--|
| 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 \$1,290,000 - 0.50% ² Over \$1,290,000 - 1.00% ² | First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,500,000 - 0.50% ² Over \$1,500,000 - 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 |
| 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 \$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% | 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

2014/15 Economic Market Value \$519,786,046¹

2014/15 Assessor's Estimated Market Value

| | Steele County | Rice County | Waseca County | Total |
|-------------------|-----------------------------|-----------------------------|----------------------------|------------------------------|
| Real Estate | \$401,042,600 | \$ 77,213,900 | \$11,929,400 | \$ 490,185,900 |
| Personal Property | <u>4,916,700</u> | <u>605,200</u> | <u>5,800</u> | <u>5,527,700</u> |
| Total Valuation | <u><u>\$405,959,300</u></u> | <u><u>\$ 77,819,100</u></u> | <u><u>\$11,935,200</u></u> | <u><u>\$ 495,713,600</u></u> |

2014/15 Net Tax Capacity

| | Steele County | Rice County | Waseca County | Total |
|---|----------------------------|-------------------------|--------------------------|----------------------------|
| Real Estate | \$ 3,369,913 | \$666,063 | \$100,075 | \$ 4,136,051 |
| Personal Property | <u>96,834</u> | <u>12,104</u> | <u>87</u> | <u>109,025</u> |
| Net Tax Capacity | \$ 3,466,747 | \$678,167 | \$100,162 | \$ 4,245,076 |
| Less: Captured Tax Increment Tax Capacity ² | <u>(25,481)</u> | <u>0</u> | <u>0</u> | <u>(25,481)</u> |
| Taxable Net Tax Capacity | <u><u>\$ 3,441,266</u></u> | <u><u>\$678,167</u></u> | <u><u>\$100,162</u></u> | <u><u>\$ 4,219,595</u></u> |

¹ According to the Minnesota Department of Revenue, the Economic Market Value (the "EMV") for Independent School District No. 763 (Medford) is about 96.13% 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 Assessor's Estimated Market Value (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 EMV for the District of \$519,786,046.

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

2014/15 NET TAX CAPACITY BY CLASSIFICATION

| | 2014/15 Net Tax Capacity | Percent of Total Net Tax Capacity |
|--|-------------------------------------|--|
| Residential homestead | \$ 1,162,990 | 27.40% |
| Agricultural | 2,266,465 | 53.39% |
| Commercial/industrial | 485,993 | 11.45% |
| Public utility | 5,127 | 0.12% |
| Railroad operating property | 53,368 | 1.26% |
| Non-homestead residential | 159,961 | 3.77% |
| Commercial & residential seasonal/rec. | 2,147 | 0.05% |
| Personal property | 109,025 | 2.57% |
| Total | <u>\$4,245,076</u> | <u>100.00%</u> |

TREND OF VALUATIONS

| Levy Year | Assessor's Estimated Market Value | Assessor's Taxable Market Value | Net Tax Capacity¹ | Taxable Net Tax Capacity² | Percent +/- in Estimated Market Value |
|----------------------|--|--|---|---|--|
| 2010/11 | \$378,966,500 | \$377,662,600 | \$3,541,524 | \$3,505,643 | - 1.53% |
| 2011/12 | 373,196,600 | 352,535,600 ³ | 3,267,561 ³ | 3,239,389 | - 1.52% |
| 2012/13 | 402,333,000 | 381,120,600 | 3,518,834 | 3,493,783 | + 7.81% |
| 2013/14 | 448,143,000 | 427,433,500 | 3,896,365 | 3,872,785 | + 11.39% |
| 2014/15 | 495,713,600 | 475,589,600 | 4,245,076 | 4,219,595 | + 10.62% |

¹ Net Tax Capacity includes tax increment values.

² Taxable Net Tax Capacity does not include tax increment values.

³ Beginning with taxes 2011/12, a portion of the Estimated Market Value is excluded from the calculation of Taxable Market Value and Net Tax Capacity for residential homesteads valued at \$413,800 or less.

LARGER TAXPAYERS

| Taxpayer | Type of Property | 2014/15 Net Tax Capacity | Percent of District's Total Net Tax Capacity |
|-------------------------------------|-------------------------|---|---|
| Medford Outlet Center | Commercial | \$134,982 | 3.18% |
| Ritchie Bros. Properties Inc. | Commercial | 83,886 | 1.98% |
| Mollie LLC | Commercial | 83,680 | 1.97% |
| Individual | Agricultural | 77,252 | 1.82% |
| Individuals | Agricultural | 57,881 | 1.36% |
| RJC Farms LLC | Agricultural | 49,465 | 1.17% |
| Springer Family Limited Partnership | Agricultural | 46,581 | 1.10% |
| Individuals | Residential | 45,405 | 1.07% |
| Northern Natural Gas Company | Utility | 41,422 | 0.98% |
| Individuals | Agricultural | <u>37,178</u> | <u>0.90%</u> |
| Total | | \$657,732 | 15.52% |

District's Total 2014/15 Net Tax Capacity \$4,245,076

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Rice, Steele and Waseca Counties.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedule following)

Total g.o. debt being paid from taxes (includes the Bonds of this offering) \$11,860,000

EQUALIZED DEBT SERVICE

The Minnesota Debt Service Equalization program provides state aid to finance a portion of the principal and interest payments on most school district bonds. Bonds not eligible for the program include most alternative facilities bonds, all capital facilities bonds, all OPEB bonds, and building bonds with relatively short maturities.

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.

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

INDEPENDENT SCHOOL DISTRICT NO. 763 (MEDFORD), MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(As of 11/18/15)
FISCAL YEAR BASIS

| Fiscal Year Ending | Refunding 1) Series 2006A | | This Issue 2) Series 2015A | | Total Principal | Total Interest | Total P & I | Principal Outstanding | % Paid | Fiscal Year Ending |
|--------------------|------------------------------|----------|-------------------------------|----------|-----------------|----------------|-------------|-----------------------|---------|--------------------|
| | Dated Amount | Maturity | Dated Amount | Maturity | | | | | | |
| 2016 | | | | | 535,000 | 252,816 | 787,816 | 11,325,000 | 4.51% | 2016 |
| 2017 | | | | | 550,000 | 411,882 | 961,882 | 10,775,000 | 9.15% | 2017 |
| 2018 | | | | | 635,000 | 331,443 | 966,443 | 10,140,000 | 14.50% | 2018 |
| 2019 | | | | | 650,000 | 318,743 | 968,743 | 9,490,000 | 19.98% | 2019 |
| 2020 | | | | | 660,000 | 305,743 | 965,743 | 8,830,000 | 25.55% | 2020 |
| 2021 | | | | | 680,000 | 285,943 | 965,943 | 8,150,000 | 31.28% | 2021 |
| 2022 | | | | | 700,000 | 265,543 | 965,543 | 7,450,000 | 37.18% | 2022 |
| 2023 | | | | | 725,000 | 244,543 | 969,543 | 6,725,000 | 43.30% | 2023 |
| 2024 | | | | | 745,000 | 222,793 | 967,793 | 5,980,000 | 49.58% | 2024 |
| 2025 | | | | | 775,000 | 200,443 | 975,443 | 5,205,000 | 56.11% | 2025 |
| 2026 | | | | | 795,000 | 177,193 | 972,193 | 4,410,000 | 62.82% | 2026 |
| 2027 | | | | | 825,000 | 153,343 | 978,343 | 3,585,000 | 69.77% | 2027 |
| 2028 | | | | | 850,000 | 127,355 | 977,355 | 2,735,000 | 76.94% | 2028 |
| 2029 | | | | | 880,000 | 97,605 | 977,605 | 1,855,000 | 84.36% | 2029 |
| 2030 | | | | | 915,000 | 66,805 | 981,805 | 940,000 | 92.07% | 2030 |
| 2031 | | | | | 940,000 | 34,780 | 974,780 | 0 | 100.00% | 2031 |
| | | | | | 535,000 | 252,816 | 787,816 | 11,860,000 | | |
| | | | | | | | 3,496,968 | 15,356,968 | | |

1) This issue refunded the 2016 through 2031 maturities of the District's \$11,750,000 General Obligation School Building Bonds, Series 2001, dated May 1, 2001.

2) This issue is refunding the 2017 through 2031 maturities of the District's \$12,030,000 General Obligation School Building Refunding Bonds, Series 2006A, dated March 30, 2006. The refunded maturities will be called for prior redemption on February 1, 2016 and have not been included in the calculation of debt ratios.

BONDED DEBT LIMIT

Minnesota Statutes, Section 475.53, subdivision 4, presently limits the "net debt" of a school district to 15% of its actual market value. The actual 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:

| | |
|---|-----------------------------|
| 2014/15 Economic Market Value | \$519,786,046 |
| Multiply by 15% | <u>0.15</u> |
| Statutory Debt Limit | \$ 77,967,907 |
| Less: Long-Term Debt Outstanding Being Paid Solely from Taxes | <u>(11,860,000)</u> |
| Unused Debt Limit | <u><u>\$ 66,107,907</u></u> |

OVERLAPPING DEBT¹

| Taxing District | 2014/15 Taxable Net Tax Capacity | % In District | Total G.O. Debt | District's Proportionate Share |
|--|---|--------------------------|----------------------------|---|
| Rice County | \$ 55,445,882 | 1.2231% | \$23,490,000 | \$ 287,310 |
| Steele County | 36,638,857 | 9.3924% | 13,835,000 | 1,299,438 |
| Waseca County | 25,766,701 | 0.3887% | 3,735,000 | 14,519 |
| City of Medford | 894,960 | 100.0000% | 1,005,000 | <u>1,005,000</u> |
| District's Share of Total Overlapping Debt | | | | <u><u>\$ 2,606,266</u></u> |

DEBT PAYMENT HISTORY

The District has never defaulted in the payment of principal and interest on its debt.

¹ Only those taxing jurisdictions with general obligation debt outstanding are included in this section. 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.

DEBT RATIOS

| | G.O. Debt | Debt/Economic Market Value (\$519,786,046) | Debt/ Current Population Estimate (3,136) |
|--|------------------|---|--|
| Direct G.O. Debt Being Paid From Taxes | \$ 11,860,000 | 2.28% | \$3,781.89 |
| Tax Supported General Obligation Debt | \$ 11,860,000 | 2.28% | \$3,781.89 |
| District's Share of Total Overlapping Debt | \$ 2,606,266 | 0.50% | \$831.08 |
| Total | \$ 14,466,266 | 2.78% | \$4,612.97 |

FUTURE FINANCING

The District reports no plans for additional financing in the next three months.

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.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

| Tax Year | Net Tax Levy ¹ | Total Collected Following Year | Collected to Date ² | % Collected |
|----------|---------------------------|--------------------------------|--------------------------------|-------------|
| 2010/11 | \$ 1,169,354 | \$ 1,156,365 | \$ 1,168,193 | 99.90% |
| 2011/12 | 1,211,070 | 1,200,973 | 1,210,141 | 99.92% |
| 2012/13 | 1,183,009 | 1,174,851 | 1,180,677 | 99.80% |
| 2013/14 | 1,306,205 | 1,199,316 | 1,297,557 | 99.34% |
| 2014/15 | 1,633,152 | In process of collection | | |

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.³ Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

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

² Collections are through July 31, 2015 for Rice County, December 31, 2014 for Steele County and through May 18, 2015 for Waseca County.

³ Second half tax payments on agricultural property are due on November 15th of each year.

TAX CAPACITY RATES¹

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| I.S.D. No. 763 (Medford) | 33.120% | 35.541% | 32.030% | 29.726% | 29.449% |
| Rice County | 31.705% | 36.088% | 40.021% | 40.179% | 40.545% |
| Steele County | 56.751% | 64.517% | 63.923% | 60.440% | 49.187% |
| Waseca County | 51.472% | 56.499% | 56.224% | 49.941% | 50.169% |
| City of Medford | 44.917% | 60.403% | 65.660% | 68.389% | 66.831% |
| Town of Warsaw ² | 6.904% | 7.890% | 8.256% | 7.877% | 7.665% |
| LeSueur-Waseca Library | 0.000% | 0.000% | 0.000% | 1.462% | 1.567% |
| Region 9 | 0.180% | 0.200% | 0.188% | 0.166% | 0.154% |
| Rice County HRA | 0.471% | 0.526% | 0.568% | 0.601% | 0.223% |

Referendum Market Value Rates:

| | | | | | |
|--------------------------|----------|----------|----------|----------|----------|
| I.S.D. No. 763 (Medford) | 0.03878% | 0.03913% | 0.04095% | 0.08627% | 0.20228% |
|--------------------------|----------|----------|----------|----------|----------|

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Rice, Steele and Waseca Counties.

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

² Representative town rate.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 101, including 32 non-licensed employees and 69 licensed employees (66 of whom are teachers). The District provides education for 860 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, Chapter 354 and 356.

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.

Recognized and Certified Bargaining Units

| Bargaining Unit | Expiration Date of Current Contract |
|-------------------------------|--|
| Medford Education Association | June 30, 2015 |

Status of Contracts

The contract which expired on June 30, 2015 is currently in negotiations.

LIABILITIES FOR OTHER 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. 45 (GASB 45). The District's most recent actuarial study of its OPEB obligations shows an actuarial accrued liability of \$742,253 as of July 1, 2008. The District has been funding these obligations on a pay-as-you-go basis.

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 |
|-------------|---------------------|-------------------|--------------------|--------------|
| 2011/12 | 68 | 408 | 334 | 810 |
| 2012/13 | 71 | 397 | 372 | 840 |
| 2013/14 | 68 | 397 | 380 | 845 |
| 2014/15 | 66 | 397 | 387 | 850 |
| 2015/16 | 68 | 407 | 385 | 860 |

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

| Year | Kindergarten | Grades 1-6 | Grades 7-12 | Total |
|-------------|---------------------|-------------------|--------------------|--------------|
| 2016/17 | 60 | 385 | 427 | 872 |
| 2017/18 | 60 | 403 | 409 | 872 |
| 2018/19 | 60 | 406 | 409 | 875 |

SCHOOL BUILDINGS

| School Building | Year Constructed | Years of Additions/ Remodelings |
|------------------------|-------------------------|--|
| Medford School | 2003 | -- |

FUNDS ON HAND (as of August 31, 2015)

| Fund | Total Cash and Investments |
|----------------------------|---------------------------------------|
| General | \$3,076,829 |
| Food Service | 136,047 |
| Community Service | 73,507 |
| Debt Service | 493,057 |
| Trust | 57,549 |
| Total Funds on Hand | <u><u>\$3,836,989</u></u> |

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 these Bonds or otherwise questioning the validity of these Bonds.

SUMMARY GENERAL FUND INFORMATION¹

Following are summaries of the revenues and expenditures and fund balances for the District's General Fund for the past five fiscal years. These summaries are not purported to be the complete audited financial statements of the District. Copies of the complete audited financial statements are available upon request. See Appendix A for the District's 2014 audited financial statements.

| | FISCAL YEAR ENDING JUNE 30 | | | | |
|---|----------------------------|---------------------|---------------------|---------------------|---------------------|
| COMBINED STATEMENT | 2010 | 2011 | 2012 | 2013 | 2014 |
| REVENUES | | | | | |
| Local Sources: | | | | | |
| Property Taxes | \$ 206,413 | \$ 286,032 | \$ 310,165 | \$ 254,204 | \$ 217,572 |
| Earnings on Investments | 40,971 | 16,999 | 16,833 | 14,294 | 15,601 |
| Other | 170,738 | 235,047 | 182,933 | 210,322 | 224,293 |
| State Sources | 4,696,320 | 5,531,589 | 5,812,028 | 6,124,937 | 6,054,509 |
| Federal Sources | 653,914 | 209,641 | 324,751 | 214,683 | 199,907 |
| Total Revenues | <u>\$ 5,768,356</u> | <u>\$ 6,279,308</u> | <u>\$ 6,646,710</u> | <u>\$ 6,818,440</u> | <u>\$ 6,711,882</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Administration | \$ 511,008 | \$ 394,960 | \$ 397,687 | \$ 413,956 | \$ 526,449 |
| District Support Services | 247,176 | 246,150 | 257,760 | 284,291 | 313,705 |
| Regular Instruction | 3,086,532 | 3,230,421 | 3,524,646 | 3,855,871 | 3,715,352 |
| Vocational Education Instruction | 165,433 | 178,975 | 182,573 | 183,524 | 176,202 |
| Special Education Instruction | 517,689 | 535,836 | 653,565 | 739,880 | 737,268 |
| Instructional Support Services | 120,435 | 104,293 | 113,557 | 137,466 | 249,810 |
| Pupil Support Services | 448,326 | 477,887 | 502,695 | 539,009 | 549,271 |
| Sites and Buildings | 559,064 | 579,542 | 598,105 | 564,217 | 623,602 |
| Fiscal and Other Fixed Cost Programs | 18,310 | 16,741 | 20,427 | 36,554 | 39,500 |
| Capital Outlay | 163,067 | 174,092 | 166,503 | 165,938 | 163,003 |
| Debt Service | 0 | 0 | 0 | 5,588 | 5,589 |
| Total Expenditures | <u>\$ 5,837,040</u> | <u>\$ 5,938,897</u> | <u>\$ 6,417,518</u> | <u>\$ 6,926,294</u> | <u>\$ 7,099,751</u> |
| Excess of revenues over (under) expenditures | \$ (68,684) | \$ 340,411 | \$ 229,192 | \$ (107,854) | \$ (387,869) |
| Other Financing Sources (Uses) | | | | | |
| Insurance Recovery Proceeds | \$ 0 | \$ 15,081 | \$ 14,680 | \$ 0 | \$ 3,400 |
| Capital Lease Proceeds | 0 | 0 | 22,967 | 0 | 0 |
| Proceeds from Sale of Equipment | 0 | 3,148 | 299 | 0 | 0 |
| Proceeds from Sale of Real Property | 0 | 600 | 0 | 0 | 0 |
| Sale of equipment proceeds | 350,175 | 0 | 0 | 0 | 0 |
| Judgment for School District | 1,893 | 0 | 0 | 0 | 0 |
| Operating transfers in/(out) | 0 | 0 | (40,328) | (23,926) | (28,569) |
| Total Other Financing Sources (Uses) | <u>\$ 0</u> | <u>\$ 18,829</u> | <u>\$ (2,382)</u> | <u>\$ (23,926)</u> | <u>\$ (25,169)</u> |
| Net Change in Fund Balances | \$ 283,384 | \$ 359,240 | \$ 226,810 | \$ (131,780) | \$ (413,038) |
| General Fund Balance July 1 | 2,294,804 | 2,578,188 | 2,937,428 | 3,164,238 | 3,032,458 |
| Residual Equity Transfer in (out) | 0 | 0 | 0 | 0 | 0 |
| General Fund Balance June 30 | <u>\$ 2,578,188</u> | <u>\$ 2,937,428</u> | <u>\$ 3,164,238</u> | <u>\$ 3,032,458</u> | <u>\$ 2,619,420</u> |
| DETAILS OF JUNE 30 FUND BALANCE | | | | | |
| Reserved | \$ 474,759 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Unreserved - Designated | 196,357 | 0 | 0 | 0 | 0 |
| Unreserved - Undesignated | 1,907,072 | 0 | 0 | 0 | 0 |
| Restricted | 0 | 422,905 | 267,224 | 123,340 | 134,109 |
| Assigned | 0 | 697,579 | 698,737 | 705,164 | 766,476 |
| Unassigned | 0 | 1,816,944 | 2,198,277 | 2,203,954 | 1,718,835 |
| Total | <u>\$ 2,578,188</u> | <u>\$ 2,937,428</u> | <u>\$ 3,164,238</u> | <u>\$ 3,032,458</u> | <u>\$ 2,619,420</u> |

¹ The District's fiscal year 2015 preliminary audited information shows an excess of expenditures over revenues of approximately \$75,000, due to a planned one-time capital expenditure. The District's fiscal year 2016 budget is projected to be balanced.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 3,136 and a current population estimate of 3,136, and comprising an area of 24.51 square miles, is located approximately 60 miles south of the Minneapolis-St. Paul metropolitan area. For additional information regarding the District, please visit its website at www.medford.k12.mn.us.

LARGER EMPLOYERS

Larger employers in the District include the following:

| Firm | Type of Business/Product | Estimated No. of Employees |
|----------------------------|---------------------------------------|-----------------------------------|
| Medford Outlet Center | Property management for shopping mall | 286 |
| Hormel Foods | Food products and manufacturers | 250 |
| I.S.D. No. 763 (Medford) | Elementary and secondary education | 101 |
| Medford Furniture Mart | Retail furniture store | 100 |
| Straight River Enterprises | Rehabilitation services | 60 |
| McDonald's | Restaurant | 45 |
| City of Medford | Municipal government and services | 27 |
| Poly Pak Plastics | Bags - plastics manufacturer | 20 |
| Ron Buehler | Manufacturers | 15 |
| Our Home South, Inc. | Assisted living facility | 12 |

Source: *ReferenceUSA, written and telephone survey (September 2015), and the Minnesota Department of Employment and Economic Development.*

U.S. CENSUS DATA

Population Trend: Independent School District No. 763 (Medford), Minnesota

| | |
|-----------------------------------|---------|
| 2000 U.S. Census population | 2,917 |
| 2010 U.S. Census population | 3,136 |
| 2013 State Demographer's Estimate | 3,136 |
| Percent of Change 2000 - 2010 | + 7.51% |

Income and Age Statistics

| | Medford School District | Steele County | State of Minnesota | United States |
|--|--|--------------------------|-------------------------------|--------------------------|
| 2012 per capita income | \$25,675 | \$27,259 | \$30,913 | \$28,155 |
| 2012 median household income | \$62,708 | \$56,480 | \$59,836 | \$53,046 |
| 2012 median family income | \$72,083 | \$71,627 | \$74,683 | \$64,719 |
| 2013 median gross rent | \$754 | \$720 | \$819 | \$904 |
| 2013 median value owner-occupied units | \$169,400 | \$155,400 | \$187,900 | \$176,700 |
| 2013 median age | 36.7 yrs. | 39.4 yrs. | 37.6 yrs. | 37.3 yrs. |

| | State of Minnesota | United States |
|---|---------------------------|----------------------|
| District % of 2012 per capita income | 83.06% | 91.19% |
| District % of 2012 median family income | 96.52% | 111.38% |

Source: 2000 and 2010 Census of Population and Housing, and 2013 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

| Year | <u>Average Employment</u> | | <u>Average Unemployment</u> | |
|--------------|----------------------------------|--|------------------------------------|---------------------------|
| | Steele County | | Steele County | State of Minnesota |
| 2011 | 19,741 | | 6.5% | 6.5% |
| 2012 | 20,465 | | 5.4% | 5.6% |
| 2013 | 20,474 | | 4.5% | 5.0% |
| 2014 | 20,404 | | 3.7% | 4.1% |
| 2015, August | 20,744 | | 3.3% | 3.5% |

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 the auditor to perform any additional examination, assessments or evaluation with respect to such financial statements since the date thereof, 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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2014**

BOARD OF EDUCATION

| | |
|----------------|------------|
| William Cronin | Chair |
| Allison Janke | Vice-Chair |
| Jackie Berg | Clerk |
| Gary Wiersma | Treasurer |
| Jeri Madsen | Member |
| Anne Hemann | Member |
| Jon Sutherland | Member |

ADMINISTRATION

| | |
|-------------|----------------|
| Rich Dahman | Superintendent |
|-------------|----------------|



INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 763
Medford, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763 (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763 as of June 30, 2014, and the respective changes in financial position and budgetary comparison for General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Independent School District No. 763's 2013 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated November 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress for Postemployment Benefit Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 763's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Uniform Financial Accounting and Reporting Standards Compliance Table 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Education
Independent School District No. 763

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014, on our consideration of Independent School District No. 763's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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 No. 763's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
September 16, 2014

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

This section of Medford Public Schools – Independent School District No. 763's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014-2015 fiscal years include the following:

- Net Position on June 30, 2013 was \$3,233,354 and on June 30, 2014 was \$2,631,182.
- Overall General Fund revenues and other financing sources were \$6,715,282 as compared to \$7,128,320 of expenditures and other financing uses.
- General Fund fund balance decreased \$413,038 from the prior year. The major factor contributing to the decrease was the increased cost of salaries and purchased services.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

District-Wide Statements

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

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

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used for only their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was \$2,631,182 on June 30, 2014.

**Table A-1
The District's Net Position**

| | Governmental Activities as of | | Percentage Change |
|--------------------------------|-------------------------------|---------------------|----------------------|
| | 2014 | 2013 | |
| Current and Other Assets | \$ 4,970,288 | \$ 5,312,884 | (6.4)% |
| Capital and Non-Current Assets | 12,681,277 | 13,123,212 | (3.4) |
| Total Assets | <u>17,651,565</u> | <u>18,436,096</u> | (4.3) |
| Current Liabilities | 1,463,789 | 1,383,252 | 5.8 |
| Long-Term Liabilities | 12,334,264 | 12,761,521 | (3.3) |
| Total Liabilities | <u>13,798,053</u> | <u>14,144,773</u> | (2.5) |
| Deferred Inflows of Resources | 1,222,330 | 1,057,969 | 15.5 |
| Net Position: | | | |
| Net Investment in | | | |
| Capital Assets | 302,289 | 261,501 | 15.6 |
| Restricted | 288,825 | 299,417 | (0.2) |
| Unrestricted | 2,030,068 | 2,672,436 | (24.0) |
| Total Net Position | <u>\$ 2,631,182</u> | <u>\$ 3,233,354</u> | (18.6) |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$8,330,753 for the year ended June 30, 2014. Property taxes and state formula aid accounted for 76% of total revenue for the year (see Figure A-1). Less than 1% came from other general revenues combined with investment earnings and the remaining 23% came from program revenues.

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

| | Governmental Activities for the | | Total % Change |
|--|------------------------------------|---------------------|-------------------|
| | Fiscal Year Ended June 30, 2014 | 2013 | |
| Revenues | | | |
| Program Revenues | | | |
| Charges for Services | \$ 488,061 | \$ 489,593 | (0.3)% |
| Operating Grants and Contributions | 1,360,480 | 1,259,119 | 8.1 |
| Capital Grants and Contributions | 127,106 | 126,236 | 0.7 |
| General Revenues | | | |
| Property Taxes | 1,173,349 | 1,209,237 | (3.0) |
| Unrestricted State Aid | 5,130,874 | 5,279,734 | (2.8) |
| Investment Earnings | 18,119 | 16,711 | 8.4 |
| Other | 32,764 | 29,165 | 12.3 |
| Total Revenues | <u>8,330,753</u> | <u>8,409,795</u> | |
| Expenses | | | |
| Administration | 542,233 | 419,657 | 29.2 |
| District Support Services | 319,355 | 285,066 | 12.0 |
| Regular Instruction | 4,197,167 | 4,438,711 | (5.4) |
| Vocational Education Instruction | 181,675 | 189,177 | (4.0) |
| Special Education Instruction | 738,566 | 734,147 | 0.6 |
| Instructional Support Services | 374,472 | 149,943 | 149.7 |
| Pupil Support Services | 550,957 | 539,935 | 2.0 |
| Sites and Buildings | 667,466 | 533,500 | 25.1 |
| Fiscal and Other Fixed Cost Programs | 39,500 | 36,554 | 8.1 |
| Food Service | 458,343 | 432,585 | 6.0 |
| Community Service | 192,178 | 191,499 | 0.4 |
| Interest and Fiscal Charges on Long-Term Liabilities | 671,013 | 546,649 | 22.8 |
| Total Expenses | <u>8,932,925</u> | <u>8,497,423</u> | 5.1 |
| (Decrease) in Net Position | <u>(602,172)</u> | <u>(87,628)</u> | |
| Beginning Net Position | 3,233,354 | 3,320,982 | |
| Ending Net Position | <u>\$ 2,631,182</u> | <u>\$ 3,233,354</u> | |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Typically the District does not include in an analysis of all governmental funds a breakout of expenditures as depicted in Figure A-2. To do so distorts the latitude available to the District to allocate resources to instruction. All governmental funds include not only funds received for the general operation of the district, which are used for classroom instruction, but also include resources from the entrepreneurial-type funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction. The above graph, by pooling all expenditures, implies that the District does have equal access to all funds to impact classroom instruction. In Minnesota, that is simply not an option.

Table A-3

| | Total Cost of Services | | Net Cost of Services | | Percentage Change |
|----------------------------------|------------------------|---------------------|----------------------|---------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 | |
| Administration | \$ 542,233 | \$ 419,657 | \$ 542,233 | \$ 419,657 | 29.2 % |
| District Support Services | 319,355 | 285,066 | 253,064 | 219,857 | 15.1 |
| Regular Instruction | 4,197,167 | 4,438,711 | 3,428,724 | 3,719,619 | (7.6) |
| Vocational Education Instruction | 181,675 | 189,177 | 172,170 | 186,164 | (7.5) |
| Special Education Instruction | 738,566 | 734,147 | 307,736 | 289,680 | 18.5 |
| Instructional Support Services | 374,472 | 149,943 | 349,270 | 149,516 | 133.6 |
| Pupil Support Services | 550,957 | 539,935 | 547,372 | 523,256 | 4.6 |
| Sites and Buildings | 667,466 | 533,500 | 594,264 | 520,564 | 14.2 |
| Fiscal and Other Fixed | | | | | |
| Cost Programs | 39,500 | 36,554 | 39,500 | 36,554 | 8.1 |
| Food Service | 458,343 | 432,585 | 468 | (11,665) | (96.0) |
| Community Service | 192,178 | 191,499 | 52,400 | 52,324 | 0.1 |
| Interest and Fiscal Charges | | | | | |
| on Long-Term Liabilities | 671,013 | 546,649 | 671,013 | 546,649 | 22.8 |
| Total | \$ 8,932,925 | \$ 8,407,423 | \$ 6,957,278 | \$ 6,527,475 | 5.1 |

Figure A-1 Sources of District's Revenues for Fiscal 2014

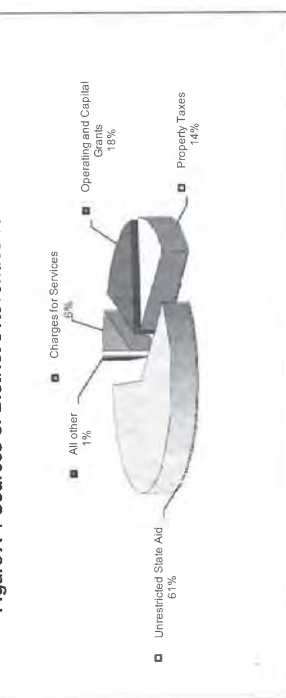
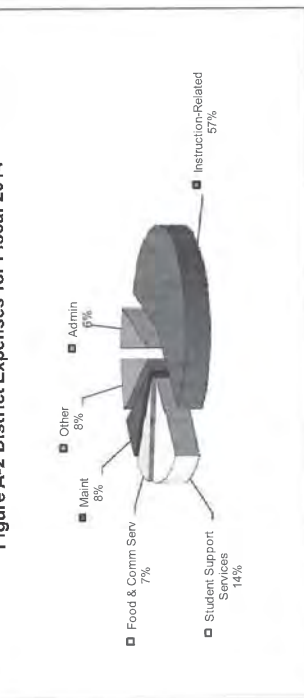


Figure A-2 District Expenses for Fiscal 2014



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$8,932,925. Total expenses surpassed revenues, decreasing net position \$602,172 compared to last year.

- Some of the cost was paid by the users of the District's programs (\$488,061).
- The federal and state governments subsidized certain programs with grants and contributions (\$1,487,586).
- Most of the District's costs (\$6,957,278), however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$1,173,349 in property taxes, \$5,130,874 of state aid based on the statewide education aid formula, and with investment earnings and other general revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,984,686 which includes Debt Service. Total fund balance excluding Debt Service, amounted to \$2,778,406, a decrease of \$393,408 from last year.

GENERAL FUND

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12 including pupil transportation activities and capital outlay projects.

Approximately 96% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68% of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND (CONTINUED)

Enrollment

Enrollment is a critical factor in determining revenue with approximately 87% of General Fund revenue being determined by enrollment. The following chart shows that the number of students has increased over the last four years.

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

| Grade | 2011 | 2012 | 2013 | 2014 |
|----------------|------|------|------|-------|
| K-12 | 65 | 63 | 64 | 73 |
| 1-3 | 212 | 218 | 203 | 199 |
| 4-6 | 216 | 213 | 204 | 213 |
| 7-12 | 341 | 361 | 388 | 368 |
| Total K-12 ADM | 834 | 855 | 859 | 853 |
| ADM Change | 59 | 21 | 4 | (6) |
| Percent Change | 4.7% | 2.5% | 0.5% | -0.7% |

Over the last four years the District has experienced an increase in average daily membership by 19 students or 2.3%. It is anticipated that enrollment will remain stable. Limited space will restrict future growth from open enrollment. The District has encouraged parents to elect Medford Public School as the option of choice.

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

| Fund | Year Ended | | | Change Increase (Decrease) | Percent |
|----------------------------|------------------|------------------|--------------|----------------------------------|---------|
| | June 30, 2014 | June 30, 2013 | | | |
| Local Sources: | | | | | |
| Property Taxes | \$ 217,572 | \$ 254,204 | \$ (36,632) | (14.4)% | |
| Earnings on Investments | 15,601 | 14,294 | 1,307 | 9.1 | |
| Other | 224,293 | 210,323 | 13,970 | 6.6 | |
| State Sources | 6,054,509 | 6,124,937 | (70,428) | (1.1) | |
| Federal Sources | 199,907 | 214,663 | (14,756) | (6.9) | |
| Total General Fund Revenue | \$ 6,711,882 | \$ 6,818,441 | \$ (106,559) | (1.6) | |

Total General Fund Revenue decreased by \$106,559 or 1.6% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

| | Year Ended | | | Amount of Increase (Decrease) | Percent Increase (Decrease) |
|------------------------|------------------|------------------|------------|-------------------------------------|-----------------------------------|
| | June 30, 2014 | June 30, 2013 | | | |
| Salaries | \$ 3,862,613 | \$ 3,770,116 | \$ 92,497 | 2.5 % | |
| Employee Benefits | 1,405,685 | 1,416,367 | (10,682) | (0.8) | |
| Purchased Services | 1,318,912 | 1,237,630 | 81,282 | 6.6 | |
| Supplies and Materials | 316,931 | 305,133 | 11,798 | 3.9 | |
| Capital Expenditures | 163,003 | 166,404 | (3,401) | (2.0) | |
| Other Expenditures | 32,607 | 30,644 | 1,963 | 6.4 | |
| Total Expenditures | \$ 7,099,751 | \$ 6,926,294 | \$ 173,457 | 2.5 | |

Total General Fund Expenditures increased \$173,457 or 2.5% from the previous year. This increase is primarily attributed to the increased cost of salaries and purchased service.

In 2013-14, General Fund revenues and other financing sources were less than expenditures and other financing uses by \$413,038. Therefore, the total fund balance decreased to \$2,619,420 at June 30, 2014. After deducting statutory restrictions, the unassigned fund balance decreased from \$2,203,954 at June 30, 2013 to \$1,718,835 at June 30, 2014.

Unassigned fund balance is the single best measure of overall financial health. The unassigned fund balance of \$1,718,835 at June 30, 2014, represents 24% of annual expenditures. The District has had a Board approved fund balance policy in place since 1999 requiring a minimum 25% of the yearly total expenditures be maintained.

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the District revises the annual operating budget in mid-year. These budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over, and budgeting for clearing.
- Legislation passed subsequent to budget adoption, changes necessitated by collective bargaining agreements, and increases in appropriations for significant unbudgeted costs.

Actual revenues were \$48,329 less than expected. The actual expenditures were \$245,634 below budget. While the District's final budget for the general fund anticipated that expenditures would exceed revenues by \$585,174, the actual results for the year show expenditures and other financing uses exceeded revenues and other financing sources by \$413,038.

DEBT SERVICE FUND

The Debt Service Fund expenditures were more than revenues by \$24,159. The remaining fund balance of \$206,280 at June 30, 2014 is available for meeting future debt service obligations.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

OTHER MAJOR FUNDS

Revenues exceeded expenditures in the Food Service Fund by \$2,430. The Community Service Fund revenues and other financing sources exceeded expenditures by \$17,200.

From the standpoint of maintaining current operating expenditures within the range of annual revenue, and maintaining a sound fund balance, these funds will be monitored.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014, the District had invested slightly more than \$17.5 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7.) (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$446,274.

**Table A-7
The District's Capital Assets**

| | 2014 | 2013 | Percentage Change |
|--------------------------------|----------------------|----------------------|----------------------|
| Land | \$ 459,823 | \$ 459,823 | - |
| Land Improvements | 2,151,741 | 2,151,741 | - |
| Buildings and Improvements | 14,204,232 | 14,204,232 | - |
| Equipment | 697,639 | 688,640 | (0.1) |
| Less: Accumulated Depreciation | (4,832,158) | (4,391,224) | 10.0 |
| Total | \$ 12,681,277 | \$ 13,123,212 | (3.4) |

Long-Term Liabilities

At year-end, the District had \$12,360,000 in general obligation bonds outstanding. The District also had an estimated \$472,365 in severance and other postemployment benefits payable at June 30, 2014, an increase of \$83,832 since June 30, 2013.

**Table A-8
The District's Long-Term Liabilities**

| | 2014 | 2013 | Percentage Change |
|---|----------------------|----------------------|----------------------|
| General Obligation Bonds | \$ 12,360,000 | \$ 12,825,000 | (3.63)% |
| Net Bond Premium and Discount | 4,494 | 17,974 | (75.0) |
| Obligations Under Capital Leases | 14,494 | 18,737 | (22.6) |
| Other Postemployment Benefits Payable | 364,666 | 285,180 | 27.9 |
| Severance Benefits Payable | 107,689 | 103,353 | 4.2 |
| Total | \$ 12,851,353 | \$ 13,250,244 | (3.0) |
| Long-Term Liabilities: Due Within One Year | \$ 517,089 | \$ 488,723 | |
| Due in More Than One Year | 12,334,264 | 12,761,521 | |
| | \$ 12,851,353 | \$ 13,250,244 | |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FACTORS BEARING ON THE DISTRICT'S FUTURE

Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. The future revenues of the District and other Minnesota districts will depend heavily on the future actions of the legislature. Stabilizing enrollment growth will limit revenue increases in the near future.

The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 763, 750 Second Avenue S.E., Medford, MN 55049.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

| | Governmental Activities | |
|---|-------------------------|--------------|
| | 2014 | 2013 |
| ASSETS | | |
| Cash and Investments | \$ 3,652,496 | \$ 3,299,817 |
| Receivables: | | |
| Property Taxes | 664,352 | 662,171 |
| Other Governments | 627,850 | 1,171,538 |
| Other | 24,314 | 26,169 |
| Inventories | 1,276 | 2,018 |
| Bond Issuance Costs, Net | - | 151,171 |
| Capital Assets: | | |
| Land | 459,823 | 459,823 |
| Other Capital Assets, Net of Depreciation | 12,221,454 | 12,663,389 |
| Total Assets | 17,651,565 | 18,436,096 |
| LIABILITIES | | |
| Salaries and Withholdings Payable | 604,974 | 606,851 |
| Accounts Payable | 40,713 | 57,023 |
| Accrued Interest | 216,971 | 222,951 |
| Due to Other Governmental Units | 32,261 | - |
| Unearned Revenue | 51,781 | 7,704 |
| Long-Term Liabilities: | | |
| Portion Due Within One Year | 517,089 | 488,723 |
| Portion Due in More Than One Year | 12,334,264 | 12,761,521 |
| Total Liabilities | 13,798,053 | 14,144,773 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property Taxes Levied for Subsequent Year | 1,222,330 | 1,057,969 |
| NET POSITION | | |
| Net Investment in Capital Assets | 302,289 | 261,501 |
| Restricted for: | | |
| Operating Capital Purposes | 66,380 | 63,160 |
| State-Mandated Restrictions | 68,092 | 60,180 |
| Food Service | 91,583 | 89,153 |
| Community Service | 67,980 | 51,203 |
| Debt Service | 4,790 | 35,721 |
| Unrestricted | 2,030,068 | 2,672,436 |
| Total Net Position | \$ 2,631,182 | \$ 3,233,354 |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

| 2014 | | | |
|---|--------------|-------------------------|---|
| Functions | Expenses | Charges for Services | Program Operating Grants and Contributions |
| Governmental Activities | | | |
| Administration | \$ 542,233 | \$ - | \$ - |
| District Support Services | 319,355 | 65,279 | - |
| Regular Instruction | 4,197,167 | 81,398 | 655,454 |
| Vocational Education Instruction | 181,675 | - | 9,505 |
| Special Education Instruction | 738,566 | - | 430,830 |
| Instructional Support Services | 374,472 | - | - |
| Pupil Support Services | 550,957 | - | 3,585 |
| Sites and Buildings | 667,466 | 3,901 | - |
| Fiscal and Other Fixed Cost Programs | 39,500 | - | - |
| Food Service | 458,343 | 225,363 | 233,448 |
| Community Service | 192,178 | 112,120 | 27,658 |
| Interest and Fiscal Charges on Long-Term Liabilities | 671,013 | - | - |
| Total School District | \$ 8,932,925 | \$ 488,061 | \$ 1,360,480 |

General Revenues

Property Taxes Levied for:

- General Purposes
- Community Service
- Debt Service
- State Aid Not Restricted to Specific Purposes
- Earnings on Investments
- Miscellaneous
- Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

See accompanying Notes to Financial Statements.

| | 2014 | 2013 |
|--|--|--|
| Revenues | Net (Expense) Revenue and Changes in Net Position | Net (Expense) Revenue and Changes in Net Position |
| Capital Grants and Contributions | Total Governmental Activities | Total Governmental Activities |
| \$ - | \$ (542,233) | \$ (419,657) |
| 1,012 | (253,064) | (219,957) |
| 31,591 | (3,428,724) | (3,719,819) |
| - | (172,170) | (186,164) |
| - | (307,736) | (259,680) |
| 25,202 | (349,270) | (149,516) |
| - | (547,372) | (523,256) |
| 69,301 | (594,264) | (520,564) |
| - | (39,500) | (36,554) |
| - | 468 | 11,665 |
| - | (52,400) | (52,324) |
| - | (671,013) | (546,649) |
| <u>\$ 127,106</u> | <u>(6,957,278)</u> | <u>(6,622,475)</u> |

| | |
|---------------------|---------------------|
| 234,377 | 244,763 |
| 18,762 | 35,721 |
| 920,210 | 928,753 |
| 5,130,874 | 5,279,734 |
| 18,119 | 16,711 |
| 32,764 | 29,165 |
| <u>6,355,106</u> | <u>6,534,847</u> |
| (602,172) | (87,628) |
| <u>3,233,354</u> | <u>3,320,982</u> |
| <u>\$ 2,631,182</u> | <u>\$ 3,233,354</u> |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014**

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

| | General | Food Service | Major Community Service |
|--|---------------------|------------------|-------------------------------|
| ASSETS | | | |
| Cash and Investments | \$ 2,775,728 | \$ 80,941 | \$ 86,542 |
| Receivables: | | | |
| Current Property Taxes | 148,929 | - | 17,724 |
| Delinquent Property Taxes | 17,485 | - | 577 |
| Due from Minnesota Department of Education | 551,809 | 419 | 2,358 |
| Due from Federal through Minnesota Department of Education | 65,142 | 3,717 | - |
| Other Receivables | 14,612 | 9,702 | - |
| Inventory | - | 1,276 | - |
| Total Assets | <u>\$ 3,573,705</u> | <u>\$ 96,055</u> | <u>\$ 107,201</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | | | |
| Liabilities: | | | |
| Salaries and Withholdings Payable | \$ 604,807 | \$ - | \$ 167 |
| Accounts Payable | 39,726 | 470 | 517 |
| Due to Other Governmental Units | 32,261 | - | - |
| Unearned Revenue | 46,343 | 4,002 | 1,436 |
| Total Liabilities | <u>723,137</u> | <u>4,472</u> | <u>2,120</u> |
| Deferred Inflows of Resources: | | | |
| Property Taxes Levied for Subsequent Years | 213,663 | - | 37,101 |
| Unavailable Revenue - Delinquent Property Taxes | 17,485 | - | 577 |
| Total Deferred Inflows of Resources | <u>231,148</u> | <u>-</u> | <u>37,678</u> |
| Fund Balance: | | | |
| Nonspendable: | | | |
| Inventory | - | 1,276 | - |
| Restricted for: | | | |
| Staff Development | - | - | - |
| Deferred Maintenance | 6,462 | - | - |
| Gifted and Talented | 9,338 | - | - |
| Basic Skills Programs | 46,631 | - | - |
| Health and Safety | (363) | - | - |
| Operating Capital | 66,380 | - | - |
| Disabled Accessibility | 5,661 | - | - |
| Safe School Crime | - | - | - |
| Community Education Programs | - | - | 46,801 |
| Early Childhood and Family Educations Programs | - | - | 20,179 |
| School Readiness | - | - | 423 |
| Other Purposes | - | 90,307 | - |
| Assigned: | | | |
| Assigned for Severance | 107,669 | - | - |
| Assigned for Other Postemployment Benefits | 500,000 | - | - |
| Assigned for Playground Equipment | 4,807 | - | - |
| Assigned for School Security | 4,000 | - | - |
| Assigned for Worlds Best Workforce | 150,000 | - | - |
| Unassigned | 1,718,835 | - | - |
| Total Fund Balance | <u>2,619,420</u> | <u>91,583</u> | <u>67,403</u> |
| Total Liabilities Deferred Inflows of Resources and Fund Balance | <u>\$ 3,573,705</u> | <u>\$ 96,055</u> | <u>\$ 107,201</u> |

See accompanying Notes to Financial Statements.

| Funds | Total Governmental | |
|---------------------|---------------------|---------------------|
| | Funds | |
| Debt Service | 2014 | 2013 |
| \$ 709,285 | \$ 3,652,496 | \$ 3,299,817 |
| 464,156 | 630,809 | 625,849 |
| 15,481 | 33,543 | 36,322 |
| 4,405 | 558,991 | 1,099,082 |
| - | 68,859 | 72,456 |
| - | 24,314 | 26,169 |
| - | 1,276 | 2,018 |
| <u>\$ 1,193,327</u> | <u>\$ 4,970,288</u> | <u>\$ 5,161,713</u> |
| | | |
| \$ - | \$ 604,974 | \$ 606,851 |
| - | 40,713 | 57,023 |
| - | 32,261 | - |
| - | 51,781 | 7,704 |
| - | <u>729,729</u> | <u>671,578</u> |
| | | |
| 971,566 | 1,222,330 | 1,057,969 |
| 15,481 | 33,543 | 29,913 |
| <u>987,047</u> | <u>1,255,873</u> | <u>1,087,882</u> |
| | | |
| - | 1,276 | 2,018 |
| - | - | 17,156 |
| - | 6,462 | 19,202 |
| - | 9,338 | 2,170 |
| - | 46,631 | - |
| - | (363) | - |
| - | 66,380 | 63,160 |
| - | 5,661 | 9,696 |
| - | - | 11,956 |
| - | 46,801 | 38,840 |
| - | 20,179 | 10,876 |
| - | 423 | 487 |
| 206,280 | 296,587 | 317,574 |
| | | |
| - | 107,669 | 196,357 |
| - | 500,000 | 500,000 |
| - | 4,807 | 4,807 |
| - | 4,000 | 4,000 |
| - | 150,000 | - |
| - | <u>1,718,835</u> | <u>2,203,954</u> |
| <u>206,280</u> | <u>2,984,686</u> | <u>3,402,253</u> |
| | | |
| <u>\$ 1,193,327</u> | <u>\$ 4,970,288</u> | <u>\$ 5,161,713</u> |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF FINANCIAL POSITION
YEAR ENDED JUNE 30, 2014**

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Total Fund Balance for Governmental Funds | \$ 2,984,686 | \$ 3,402,253 |
| Total net position reported for governmental activities in the statement of net position is different because: | | |
| Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of: | | |
| Land | 459,823 | 459,823 |
| Land Improvements, Net of Accumulated Depreciation | 1,037,697 | 1,145,284 |
| Buildings and Improvements, Net of Accumulated Depreciation | 10,932,943 | 11,217,813 |
| Equipment, Net of Accumulated Depreciation | 250,814 | 300,292 |
| Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows of resources in the funds. | | |
| | 33,543 | 29,913 |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | | |
| | (216,971) | (222,951) |
| Bond issuance costs are reported as expenditures in the governmental funds. | | |
| | - | 151,171 |
| Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are: | | |
| Bonds Payable | (12,360,000) | (12,825,000) |
| Unamortized Premiums | (4,494) | (17,974) |
| Obligations Under Capital Leases | (14,494) | (18,737) |
| Other Postemployment Benefits Payable | (364,696) | (285,180) |
| Severance Benefits Payable | (107,669) | (103,353) |
| Total Net Position of Governmental Activities | \$ 2,631,182 | \$ 3,233,354 |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

| | Major | | |
|--|---------------------|------------------|----------------------|
| | General | Food Service | Community Service |
| REVENUES | | | |
| Local Sources: | | | |
| Property Taxes | \$ 217,572 | \$ - | \$ 19,185 |
| Earnings on Investments | 15,601 | 511 | 227 |
| Other | 224,293 | 225,362 | 116,499 |
| State Sources | 6,054,509 | 20,851 | 42,170 |
| Federal Sources | 199,907 | 208,239 | - |
| Total Revenues | <u>6,711,882</u> | <u>454,963</u> | <u>178,081</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Administration | 526,449 | - | - |
| District Support Services | 313,705 | - | - |
| Regular Instruction | 3,715,352 | - | - |
| Vocational Education Instruction | 176,202 | - | - |
| Special Education Instruction | 737,268 | - | - |
| Instructional Support Services | 249,810 | - | - |
| Pupil Support Services | 549,271 | - | - |
| Sites and Buildings | 623,602 | - | - |
| Fiscal and Other Fixed Cost Programs | 39,500 | - | - |
| Food Service | - | 447,680 | - |
| Community Service | - | - | 189,450 |
| Capital Outlay | 163,003 | 4,853 | - |
| Debt Service: | | | |
| Principal | 4,243 | - | - |
| Interest and Fiscal Charges | 1,346 | - | - |
| Total Expenditures | <u>7,099,751</u> | <u>452,533</u> | <u>189,450</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (387,869) | 2,430 | (11,369) |
| OTHER FINANCING SOURCES (USES) | | | |
| Insurance Recovery Proceeds | 3,400 | - | - |
| Transfers In | - | - | 28,569 |
| Transfers Out | <u>(28,569)</u> | <u>-</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>(25,169)</u> | <u>-</u> | <u>28,569</u> |
| Net Change in Fund Balances | (413,038) | 2,430 | 17,200 |
| Fund Balances - Beginning | <u>3,032,458</u> | <u>89,153</u> | <u>50,203</u> |
| Fund Balances - Ending | <u>\$ 2,619,420</u> | <u>\$ 91,583</u> | <u>\$ 67,403</u> |

See accompanying Notes to Financial Statements.

| Funds | Total Governmental | |
|-------------------|---------------------|---------------------|
| | Funds | |
| Debt Service | 2014 | 2013 |
| \$ 932,962 | \$ 1,169,719 | \$ 1,226,225 |
| 1,780 | 18,119 | 16,711 |
| - | 566,154 | 550,769 |
| 44,055 | 6,161,585 | 6,222,042 |
| - | 408,146 | 411,036 |
| <u>978,797</u> | <u>8,323,723</u> | <u>8,426,783</u> |
| - | 526,449 | 413,956 |
| - | 313,705 | 284,291 |
| - | 3,715,352 | 3,855,871 |
| - | 176,202 | 183,524 |
| - | 737,268 | 739,880 |
| - | 249,810 | 137,466 |
| - | 549,271 | 539,009 |
| - | 623,602 | 564,217 |
| - | 39,500 | 36,554 |
| - | 447,680 | 425,368 |
| - | 189,450 | 188,494 |
| - | 167,856 | 167,462 |
| 465,000 | 469,243 | 463,917 |
| 537,956 | 539,302 | 549,533 |
| <u>1,002,956</u> | <u>8,744,690</u> | <u>8,549,542</u> |
| (24,159) | (420,967) | (122,759) |
| - | 3,400 | - |
| - | 28,569 | 23,926 |
| - | (28,569) | (23,926) |
| - | 3,400 | - |
| (24,159) | (417,567) | (122,759) |
| 230,439 | 3,402,253 | 3,525,012 |
| <u>\$ 206,280</u> | <u>\$ 2,984,686</u> | <u>\$ 3,402,253</u> |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

| | 2014 | 2013 |
|---|----------------------------|---------------------------|
| Net Change in Fund Balance-Total Governmental Funds | \$ (417,567) | \$ (122,759) |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.</p> | | |
| Capital Outlays | 5,900 | 117,473 |
| Gain (Loss) on Disposal of Capital Assets | (1,561) | - |
| Depreciation Expense | (446,274) | (446,840) |
| <p>Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.</p> | | |
| Principal Payments - Capital Leases | 4,243 | 3,917 |
| <p>The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:</p> | | |
| Repayment of Bond Principal | 465,000 | 460,000 |
| Change in Accrued Interest Expense - General Obligation Bonds | 5,980 | 4,166 |
| Amortization of Bond Issuance Costs | (151,171) | (14,762) |
| Amortization of Bond Premium | 13,480 | 13,480 |
| <p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.</p> | | |
| | 3,630 | (16,988) |
| <p>In the statement of activities, certain operating expenses - severance benefits, compensated absences and other postemployment benefits - 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 (essentially, the amounts actually paid).</p> | | |
| | <u>(83,832)</u> | <u>(85,315)</u> |
| Change in Net Position of Governmental Activities | <u>\$ (602,172)</u> | <u>\$ (87,628)</u> |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

| | Budgeted Amounts | | Actual Amounts | Over (Under) Final Budget |
|--|---------------------|---------------------|---------------------|------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Local Sources: | | | | |
| Property Taxes | \$ 238,965 | \$ 238,965 | \$ 217,572 | \$ (21,393) |
| Earnings on Investments | 17,055 | 17,055 | 15,601 | (1,454) |
| Other | 171,227 | 178,642 | 224,293 | 45,651 |
| State Sources | 5,990,571 | 6,114,714 | 6,054,509 | (60,205) |
| Federal Sources | 223,671 | 210,835 | 199,907 | (10,928) |
| Total Revenues | <u>6,641,489</u> | <u>6,760,211</u> | <u>6,711,882</u> | <u>(48,329)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration | 529,049 | 534,608 | 526,449 | (8,159) |
| District Support Services | 294,804 | 323,244 | 313,705 | (9,539) |
| Regular Instruction | 4,039,976 | 3,833,196 | 3,715,352 | (117,844) |
| Vocational Education Instruction | 189,910 | 178,960 | 176,202 | (2,758) |
| Special Education Instruction | 870,727 | 808,479 | 737,268 | (71,211) |
| Instructional Support Services | 149,889 | 273,541 | 249,810 | (23,731) |
| Pupil Support Services | 602,621 | 581,953 | 549,271 | (32,682) |
| Sites and Buildings | 646,784 | 641,835 | 623,602 | (18,233) |
| Fiscal and Other Fixed Cost Programs | 40,000 | 41,000 | 39,500 | (1,500) |
| Capital Outlay | 129,556 | 122,980 | 163,003 | 40,023 |
| Debt Service | | | | |
| Principal | - | 4,243 | 4,243 | - |
| Interest and Fiscal Charges | - | 1,346 | 1,346 | - |
| Total Expenditures | <u>7,493,316</u> | <u>7,345,385</u> | <u>7,099,751</u> | <u>(245,634)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (851,827) | (585,174) | (387,869) | 197,305 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Insurance Recovery Proceeds | - | - | 3,400 | 3,400 |
| Transfers Out | - | - | (28,569) | (28,569) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>(25,169)</u> | <u>(25,169)</u> |
| Net Change in Fund Balances | <u>\$ (851,827)</u> | <u>\$ (585,174)</u> | (413,038) | <u>\$ 172,136</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>3,032,458</u> | |
| End of Year | | | <u>\$ 2,619,420</u> | |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2014**

| | Budgeted Amounts | | Actual Amounts | Over (Under) Final Budget |
|------------------------------|------------------|--------------------|-------------------|------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Local Sources: | | | | |
| Earnings on Investments | \$ 500 | \$ 500 | \$ 511 | \$ 11 |
| Other - Primarily Meal Sales | 238,300 | 235,800 | 225,362 | (10,438) |
| State Sources | 22,000 | 21,000 | 20,851 | (149) |
| Federal Sources | 182,500 | 192,600 | 208,239 | 15,639 |
| Total Revenues | <u>443,300</u> | <u>449,900</u> | <u>454,963</u> | <u>5,063</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Food Service | 430,500 | 456,000 | 447,680 | (8,320) |
| Capital Outlay | - | 5,700 | 4,853 | (847) |
| Total Expenditures | <u>430,500</u> | <u>461,700</u> | <u>452,533</u> | <u>(9,167)</u> |
| Net Change in Fund Balance | <u>\$ 12,800</u> | <u>\$ (11,800)</u> | 2,430 | <u>\$ 14,230</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>89,153</u> | |
| End of Year | | | <u>\$ 91,583</u> | |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2014**

| | Budgeted Amounts | | Actual Amounts | Over (Under) Final Budget |
|--|--------------------|--------------------|-------------------|------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Local Sources: | | | | |
| Property Taxes | \$ 36,712 | \$ 36,712 | \$ 19,185 | \$ (17,527) |
| Earnings on Investments | 200 | 200 | 227 | 27 |
| Other - Primarily Tuition and Fees | 124,635 | 125,986 | 116,499 | (9,487) |
| State Sources | 17,746 | 18,501 | 42,170 | 23,669 |
| Total Revenues | <u>179,293</u> | <u>181,399</u> | <u>178,081</u> | <u>(3,318)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community Service | 222,126 | 211,804 | 189,450 | (22,354) |
| Capital Outlay | 300 | 300 | - | (300) |
| Total Expenditures | <u>222,426</u> | <u>212,104</u> | <u>189,450</u> | <u>(22,654)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (43,133) | (30,705) | (11,369) | 19,336 |
| OTHER FINANCING SOURCES | | | | |
| Transfer in | - | - | 28,569 | 28,569 |
| Total Other Financing Sources | <u>-</u> | <u>-</u> | <u>28,569</u> | <u>28,569</u> |
| Net Change in Fund Balance | <u>\$ (43,133)</u> | <u>\$ (30,705)</u> | 17,200 | <u>\$ 47,905</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>50,203</u> | |
| End of Year | | | <u>\$ 67,403</u> | |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

| | Private- Purpose Trust |
|----------------------|------------------------------|
| ASSETS | |
| Cash and Investments | \$ 11,901 |
| Total Assets | \$ 11,901 |
| NET POSITION | |
| Held in Trust | \$ 11,901 |
| Total Net Position | \$ 11,901 |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014**

| | Private- Purpose Trust |
|----------------------------------|------------------------------|
| ADDITIONS | |
| Gifts and Donations | \$ 10,350 |
| Earnings on Investments | 64 |
| Total Additions | 10,414 |
| DEDUCTIONS | |
| Scholarships Awarded | 15,150 |
| Total Deductions | 15,150 |
| Change in Net Position | (4,736) |
| Net Position - Beginning of Year | 16,637 |
| Net Position - End of Year | \$ 11,901 |

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 763 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 763 (the District) is an instrumentality of the State of Minnesota established to function as an education institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all fund and account groups of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

C. Basic Financial Statement Presentation

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

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

Separate Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type; private-purpose trust. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. 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.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of each fund included in this report follows:

Major Governmental Funds

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, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund come from user fees, and reimbursements from the Federal and State governments.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Major Governmental Funds (Continued)

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, and State credits.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term obligation bond principal, interest, and related costs.

Fiduciary Funds

Private Purpose Trust Fund – The Private Purpose Trust Fund is used to account for trust arrangements under which the principal and income benefits individuals, private organizations, or other governments. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donor.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budgeted amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

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

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

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

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

Cash and investments consist of interest bearing accounts. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivable not expected to be collected within one year is current property taxes receivable.

H. Inventories

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

I. Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection 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 January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for the subsequent year).

The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes (Continued)

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy which is frozen at \$84,784 for the District. Starting in fiscal year 2011, the shift was expanded to include all other general and community service fund levies. State aids were then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. In fiscal year 2014, the shift was reduced to only include the 2000 pay 2001 operating referendum levy. State aids were increased by this reduction in the shift, making it revenue neutral. Certain other portions of the District's 2013 Pay, 2014 levy, normally revenue for the 2014-2015 fiscal year, are also advance recognized at June 30, 2014, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is unavailable because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2014, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

J. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair value at the date of donation. The District maintains a threshold level of \$2,500 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 purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated consist of 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 building or other improvable property.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expense in the period they are incurred.

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

L. Accrued Employee Benefits

Vacation Pay

Full-time, non-certified employees earn annual vacation pay based on the length of service in the District. The expenditures for vacation pay are recognized when the payment is made. No liability for vacation pay is recorded, as this benefit does not vest to employees.

Severance Payable

Severance consists of convertible sick leave payments.

Sick Leave – All full-time employees are entitled to sick leave pay at various rates. Employees may accrue a maximum total of 100 sick days to be paid upon termination. The employee shall receive \$60 for each unused sick day.

The District budgets for payments of severance pay for the ensuing year when it anticipates the retirement of personnel eligible for a severance payment. The payment of severance pay is recorded as a current expenditure in the year of the payment. In 2014, severance payments totaled \$12,000. A liability for severance payable totaling \$107,669 is recorded in the Statement of Net Position.

Other Post Employment Benefits

Under the terms of certain collectively bargained employment contracts, including the teachers' and administrators' contracts, the District is required to pay 93% - 100% of single coverage health, dental and life insurance premiums until the retired employee reaches the age of 65.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The District has two types of items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year end) under the modified accrual basis of accounting.

N. Unearned Revenues

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenue for prepaid lunch accounts, and preschool registration fees.

O. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance are related to inventory. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently does not report any committed fund balance. The Board of Education passed a resolution authorizing the Superintendent the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

The District has a minimum fund balance policy, which identifies a minimum unassigned fund balance in the General Fund of 25% of the annual budgeted expenditures.

P. Risk Management

The District is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters and workers compensation.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Risk Management (Continued)

The District has joined together with other school districts in southeastern Minnesota in the Southeast Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as a common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

The District continues to carry commercial insurance for all other risks of loss. There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior three years.

Q. 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 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 statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

R. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Interfund Transfer

The District had the following interfund transfer for the year ended June 30, 2014:

| | |
|--------------|-------------|
| | Transfer In |
| Community | |
| Service Fund | |
| \$ | 28,569 |

Transfer Out:
General Fund

The purpose of the interfund transfer was to eliminate a deficit fund balance in the Community Service Fund.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned in full. The District's deposit policy for custodial credit risk follows Minnesota Statutes for deposits.

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with Minnesota Statutes, the District maintains deposits at financial institutions which are authorized by the School District's Board.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

The District's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

B. Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rated "A" or better
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The deposits are presented in the basic financial statements as follows:

| | |
|--|---------------------|
| Deposits | \$ 3,664,397 |
| Cash and Investments - Statement of Net Position | \$ 3,652,496 |
| Cash and Investments - Statement of Fiduciary Net Position | 11,901 |
| Total Cash and Investments | <u>\$ 3,664,397</u> |

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows.

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-------------------|----------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 459,823 | \$ - | \$ - | \$ 459,823 |
| Total Capital Assets, Not Being Depreciated | 459,823 | - | - | 459,823 |
| Capital Assets, Being Depreciated: | | | | |
| Land Improvements | 2,151,741 | - | - | 2,151,741 |
| Buildings and Improvements | 14,204,232 | - | - | 14,204,232 |
| Equipment | 698,640 | 5,900 | (6,901) | 697,639 |
| Total Capital Assets, Being Depreciated | 17,054,613 | 5,900 | (6,901) | 17,053,612 |
| Accumulated Depreciation for: | | | | |
| Land Improvements | (1,006,457) | (107,587) | - | (1,114,044) |
| Buildings and Improvements | (2,986,419) | (284,870) | - | (3,271,289) |
| Equipment | (388,348) | (53,817) | 5,340 | (446,825) |
| Total Accumulated Depreciation | (4,381,224) | (446,274) | 5,340 | (4,832,158) |
| Total Capital Assets, Being Depreciated, Net | 12,663,389 | (440,374) | (1,961) | 12,221,454 |
| Governmental Activities Capital Assets, Net | <u>\$ 13,123,212</u> | <u>\$ (440,374)</u> | <u>\$ (1,961)</u> | <u>\$ 12,681,277</u> |

Depreciation expense was charged to functions of the District as follows:

| | |
|---|-------------------|
| Governmental Activities | |
| Regular Instruction | \$ 417,317 |
| Instructional Support Services | 15,070 |
| Sites and Buildings | 8,077 |
| Food Service | 5,810 |
| Total Depreciation Expense, Governmental Activities | <u>\$ 446,274</u> |

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

The District has issued general obligation school building bonds to finance the construction of capital facilities or refinancing previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these bonds. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

| Issue Date | Net Interest Rate | Original Issue | Final Maturity | Principal Outstanding | |
|---------------------------------------|-------------------|----------------|----------------|-----------------------|----------------------|
| | | | | Due Within One Year | Total |
| 3/30/2006 | 4.0% - 5.0% | \$ 12,030,000 | 2/1/2031 | \$ 40,000 | \$ 11,910,000 |
| 11/16/2010 | 2.0% - 3.0% | 1,640,000 | 2/1/2015 | 450,000 | 450,000 |
| Total General Obligation Bonds | | | | 490,000 | 12,360,000 |
| Bond Premium - Net | | | | 4,494 | 4,494 |
| Lease Purchase Obligations: | | | | | |
| Capital Lease Payable | | | | 4,595 | 14,494 |
| Total Leases Purchase Obligations | | | | 4,595 | 14,494 |
| Other Postemployment Benefits Payable | | | | - | 364,696 |
| Severance Payable | | | | 18,000 | 107,669 |
| | | | | <u>\$ 517,089</u> | <u>\$ 12,851,353</u> |

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including the capital lease and severance and other postemployment benefits payable, are as follows:

| Year Ending June 30, | General Obligation Bonds Payable | |
|----------------------|----------------------------------|---------------------|
| | Principal | Interest |
| 2015 | \$ 490,000 | \$ 520,731 |
| 2016 | 535,000 | 505,632 |
| 2017 | 555,000 | 484,231 |
| 2018 | 580,000 | 462,031 |
| 2019 | 605,000 | 438,831 |
| 2020 - 2024 | 3,405,000 | 1,807,331 |
| 2025 - 2029 | 4,225,000 | 1,025,444 |
| 2030 - 2031 | 1,965,000 | 142,219 |
| | <u>\$ 12,360,000</u> | <u>\$ 5,386,450</u> |

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt

General Obligation School Building Refunding Bonds of 2006

On March 30, 2006, the District issued \$12,030,000 of General Obligation School Building Refunding Bonds, Series 2006. The proceeds of the issue were used to refund, in advance of their stated maturities, the District's G.O. School Building Bonds of 2001A. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

General Obligation School Building Refunding Bonds of 2010

On November 16, 2010, the District issued \$1,640,000 of General Obligation School Building Refunding Bonds, Series 2010. The proceeds of the issue were used to refund, in advance of their stated maturities, the District's G.O. School Building Bonds of 2001B, prepaying on February 1, 2011, the 2011 through 2015 principal installments aggregating \$1,668,455. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

Capital Lease

The District has entered into a capital lease for several copiers. The interest rate on the lease is 8% and the lease term is for five years. The capital assets relating to the leases have a cost of \$22,967 and accumulated depreciation of \$11,483 at June 30, 2014.

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2014:

| Year Ending June 30, | |
|---|------------------|
| 2015 | \$ 5,589 |
| 2016 | 5,588 |
| 2017 | 5,122 |
| | <u>16,299</u> |
| Total Minimum Lease Payments | 1,805 |
| Less Amounts Representing Interest | <u>1,805</u> |
| Present Value of Net Minimum Lease Payments | <u>\$ 14,494</u> |

Severance Payable

Severance payable consists of convertible sick leave payable to employees upon retirement. Severance benefits are paid by the General Fund.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

| | June 30, 2013 | Additions | Retirements | June 30, 2014 |
|---------------------------------------|----------------------|-------------------|-------------------|----------------------|
| Bonds Payable | \$ 12,825,000 | \$ - | \$ 465,000 | \$ 12,360,000 |
| Bond Premium | 17,974 | - | 13,480 | 4,494 |
| Capital Leases Payable | 18,737 | - | 4,243 | 14,494 |
| Other Postemployment Benefits Payable | 285,180 | 113,255 | 33,739 | 364,696 |
| Severance Payable | 103,353 | 16,316 | 12,000 | 107,669 |
| | <u>\$ 13,250,244</u> | <u>\$ 129,571</u> | <u>\$ 528,462</u> | <u>\$ 12,851,353</u> |

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES

Fund Equity

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the restricted fund balances for the governmental funds:

A. Restricted for Staff Development

The fund balance restriction represents general education aid resources restricted for staff development programs.

B. Restricted for Deferred Maintenance

Restricted for deferred maintenance represents available resources to be used only to provide for those activities having a useful life of five years or more. These include painting, carpet replacement, tuck pointing, replacement/repair of plumbing, electrical systems, HVAC, roofing. The cumulative excess/deficit of such revenues over expenditures is reported as a restriction of fund balance in the General Fund.

C. Restricted for Gifted and Talented

Restricted for gifted and talented represents available resources to provide gifted and talented programming in accordance with funding made available for that purpose.

D. Restricted for Basic Skills Program

Restricted for basic skills programs represents resources available for the Basic Skills uses listed in Minnesota statutes 126C.15, subd. 1.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

Fund Equity (Continued)

E. Restricted for Health and Safety

Restricted for health and safety represents available resources to be used only to provide for the removal of hazardous substances and other state approved life/health safety projects. Under Minnesota statute, a deficit in this restriction generates specific future levy authority.

F. Restricted for Operating Capital

The District levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve, and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

G. Restricted for Disabled Accessibility

Restricted for disabled accessibility represents available resources to be used only to provide for disabled accessibility projects.

H. Restricted for Safe School Crime

The fund balance restriction represents accumulated resources available to be expended for safe schools.

I. Restricted for Community Education Programs

The fund balance restriction represents accumulated resources available to provide general community education programming.

J. Restricted for Early Childhood and Family Education Programs

The fund balance restriction represents accumulated resources available to provide services for early childhood and family education programming.

K. Restricted for School Readiness

The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

L. Restricted for Other Purposes

The fund balance restriction represents amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

M. Assigned for Severance

This assignment of fund balance in the General Fund is intended to set aside fund balance amounts to finance future severance payments to district employees upon retirement.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

Fund Equity (Continued)

N. Assigned for Other Postemployment Benefits

This assignment of fund balance in the General Fund is intended to set aside fund balance amounts to finance other postemployment benefits.

O. Assigned for Playground Equipment

This assignment of fund balance in the General Fund is intended to set aside fund balance amounts to finance future playground equipment.

P. Assigned for School Security

This assignment of fund balance in the General Fund is intended to set aside fund balance amounts to finance upgrades to the District's security system.

Q. Assigned for World's Best Workforce

This assignment of fund balance in the General Fund is intended to set aside fund balance for improving kindergarten readiness, student graduation rates, literacy proficiency, and college preparation.

NOTE 7 PENSION PLANS

Substantially all employees of the District are required by State Law to belong to a pension plan administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), both of which are administered on a statewide basis. Disclosure relating to these plans follows:

A. Teachers Retirement Association (TRA)

1. Plan Description

All teachers employed by the District are covered by a cost sharing, multiple-employer defined benefit pension plan administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

TRA provides retirement benefits as well as death and 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 five consecutive years of allowable service, age, and years of credit at termination of service.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 PENSION PLANS (CONTINUED)

A. Teachers Retirement Association (TRA) (Continued)

1. Plan Description (Continued)

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefit provisions. The report may be accessed at the TRA website at www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing TRA at Teachers Retirement Association, 60 Empire Drive Suite 400, St. Paul, MN 55103-1855 or by calling (651) 296-6449 or 1-800-657-3853.

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.0% and 9.0%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

The District is required to contribute the following percentages of annual covered payroll: 6.5% for Coordinated Plan members and 9.5% for Basic Plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2014, 2013, and 2012 were \$231,598, \$179,741, and \$154,483, respectively, equal to the required contributions for each year as set by state statute.

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District (other than teachers) 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. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA) (Continued)

1. Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement 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. PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mmpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, MN 55103-2008 or by calling (651) 296-7460 or 1-800-652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered payroll.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan members. The District contributions for the years ended June 30, 2014, 2013, and 2012 were \$43,455, \$40,748, and \$34,904, respectively, equal to the required contributions for each year as set by state statute.

C. Defined Contribution Plan

The District provides eligible employees future retirement benefit through the District's 403(b) Plan (the Plan). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2014, 2013, and 2012 are \$32,113, \$31,039, and \$27,956, respectively. The related employee contributions were \$64,067, \$57,216, and \$50,180, for the years ended June 30, 2014, 2013, and 2012, respectively.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan (the Plan) that provides health insurance to eligible employees and their spouses through the District's health insurance plan. There are 63 active participants, 1 retired participant and 1 spouse receiving payments. Benefit and eligibility provisions are established through negotiations between the District and various unions representing the District's employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

Contribution requirements are also negotiated between the District and the union representatives. The District contributes 93% of the cost of current year health insurance and 100% of life insurance premiums for teachers and the Business and Personnel Associates. For the Superintendent, the District contributes 100% of health insurance premiums for him and his spouse and up to \$35 per month for dental insurance for him and his spouse. The other postemployment benefits are paid by the District until the retiree reaches the age of 65. For fiscal year 2014, the District contributed \$33,739.

B. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

| | |
|--|-------------------|
| Annual Required Contribution | \$ 119,445 |
| Interest on Net OPEB Calculation | 12,833 |
| Adjustment to Annual Required Contribution | (19,023) |
| Annual OPEB Cost (Expense) | <u>113,255</u> |
| Contributions Made | (33,739) |
| Increase in Net OPEB Obligation | <u>79,516</u> |
| Net OPEB Obligation - Beginning of Year | 285,180 |
| Net OPEB Obligation - End of Year | <u>\$ 364,696</u> |

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB liability for 2014 and the two preceding years are as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Liability |
|-------------------|------------------|--|--------------------|
| 6/30/2013 | \$ 113,255 | 29.8% | \$ 364,696 |
| 6/30/2013 | 120,292 | 23.2% | 285,180 |
| 6/30/2012 | 103,765 | 38.6% | 192,782 |

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$863,667. The annual payroll for active employees covered by the plan in the actuarial valuation was \$2,855,128 for a ratio of UAAL to covered payroll of 30.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8% reduced by decrements to an ultimate rate of 5.0% after six years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2014 did not exceed 30 years.

NOTE 9 FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan that is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 9 FLEXIBLE BENEFIT PLAN (CONTINUED)

Before the beginning of the plan year, which is from November 1 to October 31, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions for the health care portion of the plan, whether or not such contributions have been made.

Payments of health insurance premiums are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General, Food Service, and Community Service Funds.

Payments for amounts withheld for medical reimbursement and dependent care are made to participating employees upon submitting a request for reimbursement of eligible expenses.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the plan are equal to those of the general creditors of the District in an amount equal to the eligible health care and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 10 SELF-INSURED DENTAL PLAN

The District has elected to self-insure their employee dental insurance program. The District has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative duties. The individual stop-loss amount is \$1,719 per participant. The District accounts for this plan in the General Fund. Contributions during the year were based on maximum claims before reinsurance is effective. The amounts charged to expenses include administrative fees, stop-loss insurance premiums, claims paid and accruals for claims incurred by not paid at year-end. The District recorded expenses of \$59,927 for the year ended June 30, 2014.

The liability for unpaid claims is included in the General Fund as accounts payable.

| | 2014 | 2013 |
|----------------------------------|-----------------|-----------------|
| Unpaid Claims, Beginning of Year | \$ 1,196 | \$ 4,618 |
| Incurred Claims | 59,927 | 65,543 |
| Claims Payments (Cash Basis) | (58,952) | (68,965) |
| Unpaid Claims, End of Year | <u>\$ 2,171</u> | <u>\$ 1,196</u> |

NOTE 11 COMMITMENTS AND CONTINGENCIES

Federal and State Receivables

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. The financial assistance received is subject to audits by the grantor agency.

**MEDFORD PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 763
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
 JUNE 30, 2014**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|---|
| 7/1/2011 | \$ - | \$ 863,667 | \$ 863,667 | 0.0% | \$ 2,855,128 | 30.2% |
| 7/1/2008 | - | 742,253 | 742,253 | 0.0% | 2,696,441 | 27.5% |



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Independent School District No. 763
Medford, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Independent School District No. 763's basic financial statements, and have issued our report thereon dated September 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 763's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 763's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 763's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses listed as 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 763's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent School District No. 763's Response to Finding

Independent School District No. 763's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Independent School District No. 763's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



CliftonLarsonAllen LLP

Austin, Minnesota
September 16, 2014



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 763
Medford, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763, as of June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated September 16, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards. Our study included all of the listed categories

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 763 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Responses as item 2014-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 763's noncompliance with the above-referenced provisions.

Independent School District No. 763's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Independent School District No. 763's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

CliftonLarsonAllen LLP

Austin, Minnesota
September 16, 2014

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
SUMMARY OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS

Finding: 2014-001 Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)

Condition: The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements.

Criteria: The District should have controls in place to prevent, or detect and correct, the omission of a material disclosure in the annual financial statements.

Context: The District has informed us that they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the financial statements.

Effect: The potential exists that a material disclosure could be omitted from the financial statements and not be prevented, or detected and corrected by the District's internal controls.

Cause: The District does not have the expertise to draft the notes to the financial statements; however, they have reviewed and approved the annual financial statements prepared by the audit firm.

Recommendation: We recommend the District continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial statements is beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Business Associate reviews the drafted financial statements and footnote disclosures prior to issuance of the annual financial statements. This includes comparing information with the financial statements and notes to UFARS and other District documents. The District will continue to rely upon the auditors for completeness of these disclosures.

Official Responsible for Ensuring CAP:

Lylia Iverson, Business Associate, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2015

Plan to Monitor Completion of CAP:

The Medford School Board will be monitoring this corrective action plan.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
SUMMARY OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

FINDING: 2014-002 Minnesota Legal Compliance - Uncollateralized Deposits

Condition: Minnesota Statute 118A.03 requires the District to have deposits in excess of FDIC insurance protected by a bond or collateral, of which market value should be at least ten percent more than the excess. The District's deposits were not adequately insured or collateralized at December 31, 2013.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

None

Actions Planned in Response to Finding:

The District will contact the bank and request monthly collateral statements to monitor collateral coverage.

Official Responsible for Ensuring CAP:

Lylia Iverson, Business Associate, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2014.

Plan to Monitor Completion of CAP:

Rich Dahman, Superintendent, will ensure that the above actions have been completed through discussions with the Business Associate.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2014**

| | Audit | UFARS | Difference | | Audit | UFARS | Difference |
|----------------------------------|--------------|--------------|------------|---|--------------|--------------|------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total Revenues | \$ 6,715,282 | \$ 6,715,268 | \$ 14 | Total Revenues | \$ - | \$ - | \$ - |
| Total Expenditures | \$ 7,099,751 | \$ 7,099,736 | \$ 15 | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Nonspendable:</i> | | | | <i>Nonspendable:</i> | | | |
| 460 Nonspendable | \$ - | \$ - | \$ - | 460 Nonspendable | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | | <i>Restricted:</i> | | | |
| 403 Staff Development | \$ - | \$ - | \$ - | 407 Capital Projects Levy | \$ - | \$ - | \$ - |
| 405 Deferred Maintenance | \$ 6,462 | \$ 6,462 | \$ - | 409 Alternative Fac. Program | \$ - | \$ - | \$ - |
| 406 Health & Safety | \$ (363) | \$ (363) | \$ - | 413 Project Funded by COP | \$ - | \$ - | \$ - |
| 407 Capital Project Levy | \$ - | \$ - | \$ - | 464 Other Purposes | \$ - | \$ - | \$ - |
| 408 Cooperative Rev. | \$ - | \$ - | \$ - | <i>Unassigned:</i> | | | |
| 414 Operating Debt | \$ - | \$ - | \$ - | 463 Unassigned | \$ - | \$ - | \$ - |
| 416 Levy Reduction | \$ - | \$ - | \$ - | | | | |
| 423 Certain Teacher Programs | \$ - | \$ - | \$ - | 07 DEBT SERVICE | | | |
| 424 Operating Capital | \$ 66,380 | \$ 66,380 | \$ - | Total Revenues | \$ 978,797 | \$ 978,798 | \$ (1) |
| 426 \$25 Taconite | \$ - | \$ - | \$ - | Total Expenditures | \$ 1,002,956 | \$ 1,002,956 | \$ - |
| 427 Disabled Accessibility | \$ 5,661 | \$ 5,661 | \$ - | <i>Restricted/Reserved:</i> | | | |
| 428 Learning & Development | \$ - | \$ - | \$ - | 425 Bond Refundings | \$ - | \$ - | \$ - |
| 434 Area Learning Center | \$ - | \$ - | \$ - | 451 QZAB Payments | \$ - | \$ - | \$ - |
| 435 Contracted Alt Programs | \$ - | \$ - | \$ - | 464 Other Purposes | \$ 206,280 | \$ 206,280 | \$ - |
| 436 St Approved Alt Prog | \$ - | \$ - | \$ - | <i>Unassigned:</i> | | | |
| 438 Gifted & Talented | \$ 9,338 | \$ 9,338 | \$ - | 463 Unassigned | \$ - | \$ - | \$ - |
| 441 Basic Skills | \$ 46,631 | \$ 46,631 | \$ - | | | | |
| 445 Career and Tech, Programs | \$ - | \$ - | \$ - | 08 TRUST | | | |
| 446 First Grade Preparedness | \$ - | \$ - | \$ - | Total Revenues | \$ 10,414 | \$ 10,414 | \$ - |
| 449 Safe Schools Levy | \$ - | \$ - | \$ - | Total Expenditures | \$ 15,150 | \$ 15,150 | \$ - |
| 450 Pre-Kindergarten | \$ - | \$ - | \$ - | <i>Unassigned:</i> | | | |
| 451 QZAB Payments | \$ - | \$ - | \$ - | 422 Unassigned | \$ 11,901 | \$ 11,901 | \$ - |
| 452 OPEB Liab Not In Trust | \$ - | \$ - | \$ - | | | | |
| 453 Unfunded Sev & Retiremt Levy | \$ - | \$ - | \$ - | 09 AGENCY | | | |
| 464 Other Purposes | \$ - | \$ - | \$ - | <i>Unassigned: Should Always Be -0-</i> | | | |
| <i>Committed:</i> | | | | 422 Unassigned | \$ - | \$ - | \$ - |
| 418 Committed for Severance | \$ - | \$ - | \$ - | | | | |
| 461 Committed | \$ - | \$ - | \$ - | 20 INTERNAL SERVICE | | | |
| <i>Assigned:</i> | | | | Total Revenues | \$ - | \$ - | \$ - |
| 462 Assigned | \$ 766,476 | \$ 766,476 | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Unassigned:</i> | | | | <i>Unassigned:</i> | | | |
| 422 Unassigned | \$ 1,718,835 | \$ 1,718,836 | \$ (1) | 422 Unassigned | \$ - | \$ - | \$ - |
| | | | | | | | |
| 02 FOOD SERVICE | | | | 25 OPEB REVOCABLE TRUST | | | |
| Total Revenues | \$ 454,963 | \$ 454,964 | \$ (1) | Total Revenues | \$ - | \$ - | \$ - |
| Total Expenditures | \$ 452,533 | \$ 452,533 | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Nonspendable:</i> | | | | <i>Unassigned:</i> | | | |
| 460 Nonspendable | \$ 1,276 | \$ 1,276 | \$ - | 422 Unassigned | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | | | | | |
| 452 OPEB Liability Not In Trust | \$ - | \$ - | \$ - | 45 OPEB IRREVOCABLE TRUST | | | |
| 464 Other Purposes | \$ 90,307 | \$ 90,308 | \$ (1) | Total Revenues | \$ - | \$ - | \$ - |
| <i>Unassigned:</i> | | | | Total Expenditures | \$ - | \$ - | \$ - |
| 463 Unassigned | \$ - | \$ - | \$ - | <i>Unassigned:</i> | | | |
| | | | | 422 Unassigned | \$ - | \$ - | \$ - |
| | | | | | | | |
| 04 COMMUNITY SERVICE | | | | 47 OPEB DEBT SERVICE | | | |
| Total Revenues | \$ 178,081 | \$ 178,078 | \$ 3 | Total Revenues | \$ - | \$ - | \$ - |
| Total Expenditures | \$ 189,450 | \$ 189,447 | \$ 3 | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Nonspendable:</i> | | | | <i>Restricted:</i> | | | |
| 460 Nonspendable | \$ - | \$ - | \$ - | 464 Other Purposes | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | | <i>Unassigned:</i> | | | |
| 426 \$25 Taconite | \$ - | \$ - | \$ - | 463 Unassigned | \$ - | \$ - | \$ - |
| 431 Community Education | \$ 46,801 | \$ 46,801 | \$ - | | | | |
| 432 E.C.F.E | \$ 20,179 | \$ 20,179 | \$ - | | | | |
| 444 School Readiness | \$ 423 | \$ 423 | \$ - | | | | |
| 447 Adult Basic Education | \$ - | \$ - | \$ - | | | | |
| 452 OPEB Liability Not In Trust | \$ - | \$ - | \$ - | | | | |
| 464 Other Purposes | \$ - | \$ - | \$ - | | | | |
| <i>Unassigned:</i> | | | | | | | |
| 463 Unassigned | \$ - | \$ - | \$ - | | | | |

INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 763
Medford, Minnesota

Report on the Financial Statements

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 763 as of June 30, 2014, and the related note to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the regulatory basis of accounting described in the note to the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the note to the financial statements, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statements are prepared by the Independent School District No. 763 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in the note to the financial statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

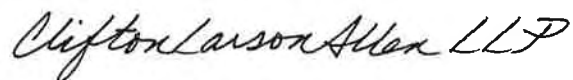
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 763 as of June, 30 2014, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District No. 763 as of June 30, 2014, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statements.



CliftonLarsonAllen LLP

Austin, Minnesota
September 16, 2014

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2014**

| Funds | Balance June 30, 2013 | Receipts | Disbursements | Balance June 30, 2014 |
|------------------------|--------------------------|-------------------|-------------------|--------------------------|
| M Club | \$ 2,635 | \$ 9,543 | \$ 11,822 | \$ 356 |
| Art Club | 64 | - | - | 64 |
| Band | 4,809 | 3,667 | 3,453 | 5,023 |
| Bank | 12 | 29 | - | 41 |
| Tiger's Den | 311 | - | - | 311 |
| Elementary St. Council | 425 | 1,843 | 1,330 | 938 |
| FFA | 3,069 | 32,213 | 34,197 | 1,085 |
| Middle School Team | 1,776 | 2,986 | 4,323 | 439 |
| Music Activity | 2,429 | 7,769 | 7,628 | 2,570 |
| NHS | 540 | 5,464 | 5,235 | 769 |
| SADD | 2,324 | 1,155 | 1,554 | 1,925 |
| Student Council | 5,986 | 47,328 | 45,453 | 7,861 |
| Trapshooting Team | 1,270 | 9,126 | 8,207 | 2,189 |
| | <u>\$ 25,650</u> | <u>\$ 121,123</u> | <u>\$ 123,202</u> | <u>\$ 23,571</u> |
| Total | <u>\$ 25,650</u> | <u>\$ 121,123</u> | <u>\$ 123,202</u> | <u>\$ 23,571</u> |

See Note to Student Activity Funds Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the Student Activity Fund are maintained, and the accompanying financial statements have been prepared, on the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

Student Activity bank deposits are covered by deposit insurance or were properly collateralized.



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAAconnect.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE
MANUAL FOR ACTIVITY FUND ACCOUNTING**

Board of Education
Independent School District No. 763
Medford, Minnesota

Report on Compliance

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 763 as of and for the year ended June 30, 2014, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated September 16, 2014. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

The Manual for Activity Fund Accounting, issued by the Minnesota Department of Education, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*, except as described in the Schedule of Findings as items 2014-003, 2014-004, and 2014-005. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced provisions.

The District's written responses to the legal compliance findings identified in our audit are described in the Schedule of Findings and Responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Manual for Activity Fund Accounting* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Austin, Minnesota
September 16, 2014



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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

FINDING: 2014-003 Minnesota Legal Compliance – Contracts for Services

Condition: One of twenty-five disbursements tested were for expenditures that are not allowed under guidelines included in *The Manual for Activity Fund Accounting (MAFA)*. This expenditure is related to a contract for a DJ that the Student Activity Fund entered into.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will continue to review the *Manual for Activity Fund Accounting* and compare requested expenditures to that guide. If expenditures are not appropriate for Student activities, other appropriate methods may be suggested for how to conduct the requested activities.

Official Responsible for Ensuring CAP:

Heidi Langeslag, Personnel Associate, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2015

Plan to Monitor Completion of CAP:

Lylia Iverson, Business Associate, will be monitoring this corrective action plan.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

FINDING: 2014-004 Minnesota Legal Compliance – Student Advisor Approval

Condition: Two of twenty-five disbursements tested did not have proper approvals from the club's student treasurer. *The Manual for Activity Fund Accounting* indicates that check requests must be signed by the activity advisor and a student representing the activity.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will obtain proper approvals on all invoices prior to payment.

Official Responsible for Ensuring CAP:

Heidi Langeslag, Personnel Associate, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2015

Plan to Monitor Completion of CAP:

Lylia Iverson, Business Associate, will be monitoring this corrective action plan.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

FINDING: 2014-005 **Minnesota Legal Compliance – Missing Statement of Purpose Forms**

Condition: None of the District’s Student Activity Funds have a Statement of Purpose Form on file as required under guidelines included in *The Manual for Activity Fund Accounting (MAFA)*.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings: None

Actions Planned in Response to Finding:

The District will continue to review the *Manual for Activity Fund Accounting* to ensure compliance with the requirements. The District will require each activity fund to complete a Statement of Purpose Form at the beginning of each year.

Official Responsible for Ensuring CAP:

Heidi Langeslag, Personnel Associate, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2015.

Plan to Monitor Completion of CAP:

Lylia Iverson, Business Associate, will be monitoring this corrective action plan.

FORM OF LEGAL OPINION



KNUTSON, FLYNN & DEANS, P.A.

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\$11,325,000*
GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS,
SERIES 2015A
INDEPENDENT SCHOOL DISTRICT NO. 763 (MEDFORD)
STEELE, RICE AND WASECA COUNTIES, MINNESOTA

We have acted as Bond Counsel in connection with the issuance by Independent School District No. 763 (Medford), Steele, Rice and Waseca Counties, Minnesota (the "District"), of its General Obligation School Building Refunding Bonds, Series 2015A (the "Bonds"), in the aggregate principal amount of \$11,325,000*, bearing a date of original issue of November 18, 2015. The Bonds are fully registered as to principal and interest and are originally issued using a global book-entry system.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

We have examined the law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other affidavits and certificates of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based upon our examination of these materials, assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and based upon present Minnesota and federal laws, regulations, rulings and decisions, it is our opinion that:

- (1) The Bonds are in due form and the proceedings show lawful authority for their issuance according to their terms under the Constitution and laws of the State of Minnesota now in force.

(2) The Bonds are valid and binding general obligations of the District enforceable in accordance with their terms except to the extent to which enforceability thereof may be limited by the exercise of judicial discretion in accordance with general principles of equity, by the constitutional powers of the United States of America and by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted. All of the taxable property in the District is subject to the levy of ad valorem taxes to pay the principal and interest on the Bonds, which taxes are without limitation as to rate or amount.

(3) Interest on the Bonds is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes. Interest on the Bonds is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax measured by income. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals and other taxpayers under Section 55 of the Internal Revenue Code of 1986, as amended, (the "Code") or for purposes of the Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal and Minnesota alternative minimum taxes applicable to corporations.

(4) The opinion set forth in paragraph (3) above is subject to the condition that the District comply with all the 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, excluded from gross income for federal and state income tax purposes. The District has covenanted in the resolution authorizing the issuance of the Bonds to comply with these continuing requirements. Noncompliance with these covenants by the District following the issuance of the Bonds may result in inclusion of interest on the Bonds in federal gross income and Minnesota taxable net income for federal and Minnesota income tax purposes retroactive to the date of issuance of the Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

(5) The Bonds have not been designated as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code relating to the deduction of interest expenses allocable to the Bonds by financial institutions.

DATED at Mendota Heights, Minnesota, this 18th day of November, 2015.

KNUTSON, FLYNN & DEANS
Professional Association

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

CONTINUING DISCLOSURE CERTIFICATE

(Full Disclosure)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 763 (Medford), State of Minnesota (the "District"), in connection with the issuance of its General Obligation School Building Refunding Bonds, Series 2015A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the School Board on October 19, 2015 (the "Resolution"). The District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55 (the "State Payment Law" described in the Official Statement for the Bonds) which provides for payment by the State of Minnesota in the event of a potential default of a District obligation. The District 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 Bondholders or beneficial owners, if different, and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5). This Disclosure Certificate constitutes the written Undertaking required by the Rule.

SECTION 2. Definitions. In addition to the definitions 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" shall mean any Annual Report provided by the District pursuant to, and as described in Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" shall mean the financial statements of the District audited annually by an independent certified public accounting firm and prepared in accordance with generally accepted accounting principles or as otherwise required by Minnesota law for the preceding Fiscal Year, including a balance sheet and statement of revenues, expenditures and changes in fund balances.

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent which has been designated in writing by the District and which has filed with the District a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system: www.emma.msrb.org, established by the MSRB and which contains a component that includes a continuing disclosure service for the receipt and public availability of continuing disclosure documents and related information to be submitted by issuers, obligated persons, and their agents pursuant to continuing disclosure undertakings entered into consistent with the Rule.

"Fiscal Year" shall mean the fiscal year of the District.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (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 Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The District shall provide, or shall cause the Dissemination Agent to provide, as soon as available, but not later than June 30, 2016, and twelve (12) months after the end of each Fiscal Year during which the Bonds are outstanding, to the MSRB, in an electronic format through the use of EMMA, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audited Financial Statements of the District may be submitted separately from the balance of the Annual Report and shall be submitted if and when available. If audited financial statements are not available by the date specified above, the District shall submit unaudited financial statements by that date to the MSRB and will submit the audited financial statements as soon as they are available.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the District shall send a notice to the MSRB.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the required method of submission to the MSRB and (if the Dissemination Agent is other than the District)

(ii) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate and stating the date it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

1. An annual Audited Financial Statement.

2. Updates of the operating and financial data included in the Official Statement under headings substantially similar to the following or containing financial information directly relating to the following: "Current Property Valuations", "Tax Levies & Collections", "Student Body", "Direct Debt", and "Employment/Unemployment."

All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

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

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following 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 action, 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.

(b) Whenever a Listed Event occurs, the District shall in a timely manner not in excess of ten business days after the occurrence of the Listed Event file a notice of such occurrence with the MSRB.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, including but not limited to its duties under Sections 3 and 5 hereof, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of 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 counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

If this Disclosure Certificate is amended, the District will disclose such amendment, together with a narrative explanation of that amendment, to the MSRB with its annual financial information disclosure.

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 Listed 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 Listed 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 Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution or 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. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders from time to time of the Bonds or the beneficial owners, if different, and shall create no rights in any other person or entity.

SECTION 13. Reserved Rights. The District reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or to modify the Undertaking under this Disclosure Certificate if the District determines that such modification is required by the Rule, or by a court of competent jurisdiction

Dated this 18th day of November, 2015

INDEPENDENT SCHOOL DISTRICT NO. 763
(MEDFORD)
STEELE, RICE AND WASECA COUNTIES
STATE OF MINNESOTA

By: _____
Chair

And: _____
Clerk

APPENDIX E

TERMS OF PROPOSAL

\$11,325,000* GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS, SERIES 2015A INDEPENDENT SCHOOL DISTRICT NO. 763 (MEDFORD), MINNESOTA

Proposals for the purchase of \$11,325,000 General Obligation School Building Refunding Bonds, Series 2015A (the "Bonds") of Independent School District No. 763 (Medford), Minnesota (the "District") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the District, until 11:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 11:00 A.M. Central Time, on October 19, 2015, at which time they will be opened, read and tabulated. The proposals will be presented to the Board of Education for consideration for award by resolution at a meeting to be held at 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued by the District pursuant to Minnesota Statutes, Chapter 475 and Section 475.67 for the purpose of effecting a current refunding of certain outstanding general obligations of the District as more fully described herein. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated November 18, 2015, 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> |
|-------------|----------------|-------------|----------------|-------------|----------------|
| 2017 | \$550,000 | 2022 | \$700,000 | 2027 | \$825,000 |
| 2018 | 635,000 | 2023 | 725,000 | 2028 | 850,000 |
| 2019 | 650,000 | 2024 | 745,000 | 2029 | 880,000 |
| 2020 | 660,000 | 2025 | 775,000 | 2030 | 915,000 |
| 2021 | 680,000 | 2026 | 795,000 | 2031 | 940,000 |

ADJUSTMENT OPTION

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

TERM BOND OPTION

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

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2016, 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 MSRB. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2017 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** 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, to act as paying agent (the "Paying Agent"). 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, Bonds maturing on or after February 1, 2026 shall be subject to redemption prior to maturity on February 1, 2025 and on any date thereafter, at a price of par plus accrued interest.

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 fewer 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 November 18, 2015, 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 Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, bond counsel to the District, and will accompany 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).

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$11,234,400 plus accrued interest on the principal sum of \$11,325,000 from date of original issue of the Bonds to date of delivery. A signed proposal form must be submitted to Ehlers prior to the time established above for the opening of proposals as follows:

- 1) In a sealed envelope as described herein; or
- 2) A facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or
- 3) Electronically via **PARITY** in accordance with this Terms of Proposal until 11:00 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 Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

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 cashier's check in the amount of \$226,500 may be submitted contemporaneously with the proposal or, alternatively, a good faith deposit in the amount of \$226,500 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such good faith deposit ("Deposit") shall be received by Ehlers & Associates no later than two hours after the proposal opening time. 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 Deposit will be returned to the Purchaser at the closing for the Bonds.

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

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

AWARD

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

BOND INSURANCE

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

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

CUSIP NUMBERS

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

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will *not* designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3).

CONTINUING DISCLOSURE

In order to assist the Underwriters 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.

INFORMATION FROM WINNING BIDDER

The winning bidder will be required to provide, in a timely manner, certain information relating to the initial offering prices of the Bonds necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended.

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 link to the Bond Sales. The Syndicate Manager will be provided with an electronic copy and up to 10 printed copies upon request of the Final Official Statement within seven business days of the proposal acceptance. 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 Board of Education

Independent School District No. 763 (Medford), Minnesota

PROPOSAL FORM

**The Board of Education
Independent School District No. 763 (Medford), Minnesota**

October 19, 2015

RE: \$11,325,000* General Obligation School Building Refunding Bonds, Series 2015A
DATED: November 18, 2015

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 Preliminary Official Statement, we will pay you \$_____ (not less than \$11,234,400) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

| | | | | | | | | |
|-------|-------|------|-------|-------|------|-------|-------|------|
| _____ | % due | 2017 | _____ | % due | 2022 | _____ | % due | 2027 |
| _____ | % due | 2018 | _____ | % due | 2023 | _____ | % due | 2028 |
| _____ | % due | 2019 | _____ | % due | 2024 | _____ | % due | 2029 |
| _____ | % due | 2020 | _____ | % due | 2025 | _____ | % due | 2030 |
| _____ | % due | 2021 | _____ | % due | 2026 | _____ | % due | 2031 |

* 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 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2017 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) 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%.

We enclose our good faith deposit in the amount of \$226,500, to be held by you pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our good faith deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such good faith deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. 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. 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. If our proposal is not accepted, said deposit shall be promptly returned to us. If the good faith deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the good faith 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 November 18, 2015.

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 this Issue.

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

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 November 18, 2015 of the above proposal is \$_____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the Board of Education of Independent School District No. 763 (Medford), Minnesota, on October 19, 2015.

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