

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2015**

INTRODUCTORY SECTION

BOARD OF EDUCATION AND ADMINISTRATION	1
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
-------------------------------------	----------

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS	5
---	----------

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	15
----------------------------------	-----------

STATEMENT OF ACTIVITIES	16
--------------------------------	-----------

BALANCE SHEET – GOVERNMENTAL FUNDS	18
---	-----------

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	20
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	21
---	-----------

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	23
--	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	24
--	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – FOOD SERVICE FUND	25
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	26
--	-----------

STATEMENT OF FIDUCIARY NET POSITION	27
--	-----------

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	27
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NOTES TO FINANCIAL STATEMENTS	28
--------------------------------------	-----------

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN	58
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	59
SCHEDULE OF DISTRICT CONTRIBUTIONS	60

OTHER REQUIRED REPORTS

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 <i>GOVERNMENT AUDITING STANDARDS</i>	61
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	63
SUMMARY OF FINDINGS AND RESPONSES	64
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	65

STUDENT ACTIVITY FUNDS

INDEPENDENT AUDITORS' REPORT	66
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS – EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS	68
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS	69
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE MANUAL FOR ACTIVITY FUND ACCOUNTING	70
SCHEDULE OF FINDINGS AND RESPONSES	71

INTRODUCTORY SECTION

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2015**

BOARD OF EDUCATION

William Cronin	Chair
Jackie Berg	Vice-Chair
Anne Hemann	Clerk
Gary Wiersma	Treasurer
Allison Janke	Member
Jennifer Jones	Member
Jon Sutherland	Member

* * * * *

ADMINISTRATION

Rich Dahman	Superintendent
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FINANCIAL SECTION

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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, 2015, 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, 2015, 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.

Emphasis-of-Matter Regarding Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance from the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement 68*, as of and for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Independent School District No. 763's 2014 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 September 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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, the Schedule of Funding Progress for Postemployment Benefit Plan, the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of District Contributions, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015, 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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Austin, Minnesota
October 23, 2015

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REQUIRED SUPPLEMENTARY INFORMATION

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

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, 2015. 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, 2014 was \$2,631,182 prior to the restatement of (\$4,395,628) and on June 30, 2015 was \$(1,692,465).
- Overall General Fund revenues were \$7,668,103 as compared to \$7,742,424 of expenditures and other financing uses.
- General Fund fund balance decreased \$74,321 from the prior year. The major factor contributing to the decrease was the increased cost of salaries, benefits, and large capital technology purchase.

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, 2015**

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, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was \$(1,692,465) on June 30, 2015.

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

	Governmental Activities as of June 30,		Percentage Change
	2015	2014	
Current and Other Assets	\$ 5,348,337	\$ 4,970,288	7.6 %
Capital and Non-Current Assets	12,251,450	12,681,277	(3.4)
Total Assets	<u>17,599,787</u>	<u>17,651,565</u>	(0.3)
Deferred Outflows of Resources	727,234	-	N/A
Current Liabilities	1,561,443	1,463,789	6.7
Long-Term Liabilities	15,718,936	12,334,264	27.4
Total Liabilities	<u>17,280,379</u>	<u>13,798,053</u>	25.2
Deferred Inflows of Resources	<u>2,739,107</u>	<u>1,222,330</u>	124.1
Net Position:			
Net Investment in			
Capital Assets	371,551	302,289	22.9
Restricted	351,209	298,825	17.5
Unrestricted	(2,415,225)	2,030,068	(219.0)
Total Net Position	<u>\$ (1,692,465)</u>	<u>\$ 2,631,182</u>	(164.3)

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$9,336,974 for the year ended June 30, 2015. Property taxes and state formula aid accounted for 74% 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 25% came from program revenues.

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

	Governmental Activities for the Fiscal Year Ended June 30,		Total %
	2015	2014	Change
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 498,013	\$ 488,061	2.0 %
Operating Grants and Contributions	1,679,723	1,360,480	23.5
Capital Grants and Contributions	144,257	127,106	13.5
<u>General Revenues</u>			
Property Taxes	1,343,047	1,173,349	14.5
Unrestricted State Aid	5,628,888	5,130,874	9.7
Investment Earnings	12,430	18,119	(31.4)
Other	30,616	32,764	(6.6)
Total Revenues	<u>9,336,974</u>	<u>8,330,753</u>	
Expenses			
Administration	538,169	542,233	(0.7)
District Support Services	330,753	319,355	3.6
Regular Instruction	4,137,849	4,197,167	(1.4)
Vocational Education Instruction	222,434	181,675	22.4
Special Education Instruction	750,836	738,566	1.7
Instructional Support Services	893,217	374,472	138.5
Pupil Support Services	584,498	550,957	6.1
Sites and Buildings	604,714	667,466	(9.4)
Fiscal and Other Fixed Cost Programs	37,593	39,500	(4.8)
Food Service	454,968	458,343	(0.7)
Community Service	194,998	192,178	1.5
Interest and Fiscal Charges on Long-Term Liabilities	514,964	671,013	(23.3)
Total Expenses	<u>9,264,993</u>	<u>8,932,925</u>	3.7
Increase (Decrease) in Net Position	71,981	(602,172)	
Net Position - As Previously Stated	2,631,182	3,233,354	
Restatement	(4,395,628)	-	
Net Position - As Restated	<u>(1,764,446)</u>	<u>3,233,354</u>	
Net Position - Ending	<u>\$ (1,692,465)</u>	<u>\$ 2,631,182</u>	

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$9,264,993. Total revenues surpassed expenses, increasing net position \$71,981 compared to last year.

- Some of the cost was paid by the users of the District's programs (\$498,013).
- The federal and state governments subsidized certain programs with grants and contributions (\$1,823,980).
- Most of the District's costs (\$6,943,000), however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$1,343,047 in property taxes, \$5,628,888 of state aid based on the statewide education aid formula, and with investment earnings and other general revenues.

Figure A-1 Sources of District's Revenues for Fiscal 2015

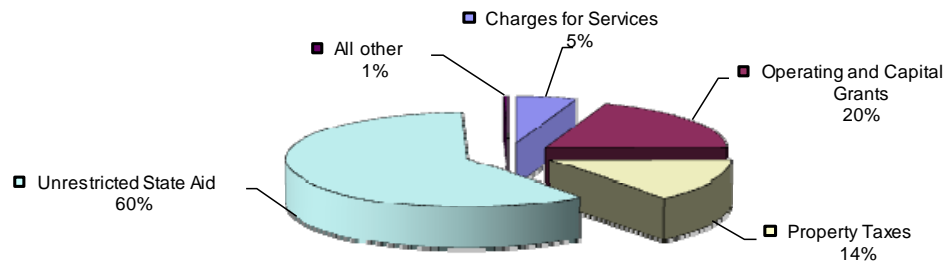
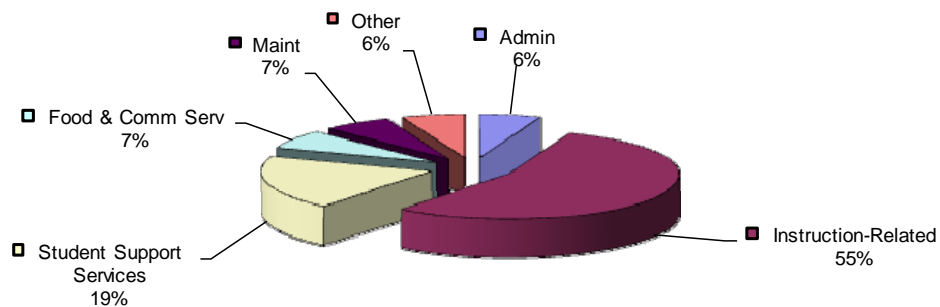


Figure A-2 District Expenses for Fiscal 2015



**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

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
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2015	2014		2015	2014	
Administration	\$ 538,169	\$ 542,233	(0.75)%	\$ 538,169	\$ 542,233	(0.7)%
District Support Services	330,753	319,355	3.57	260,281	253,064	2.9
Regular Instruction	4,137,849	4,197,167	(1.41)	3,311,753	3,428,724	(3.4)
Vocational Education Instruction	222,434	181,675	22.44	213,884	172,170	24.2
Special Education Instruction	750,836	738,566	1.66	72,771	307,736	(76.4)
Instructional Support Services	893,217	374,472	138.53	784,619	349,270	124.6
Pupil Support Services	584,498	550,957	6.09	583,122	547,372	6.5
Sites and Buildings	604,714	667,466	(9.40)	588,802	594,264	(0.9)
Fiscal and Other Fixed						
Cost Programs	37,593	39,500	(4.83)	37,593	39,500	(4.8)
Food Service	454,968	458,343	(0.74)	(4,363)	(468)	832.3
Community Service	194,998	192,178	1.47	41,405	52,400	(21.0)
Interest and Fiscal Charges						
on Long-Term Liabilities	514,964	671,013	(23.26)	514,964	671,013	(23.3)
Total	\$ 9,264,993	\$ 8,932,925	3.72	\$ 6,943,000	\$ 6,957,278	(0.2)

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 \$2,949,129, which includes Debt Service. Total fund balance excluding Debt Service, amounted to \$2,741,651, a decrease of \$36,755 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 90% 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, 2015**

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 decreased over the last four years.

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

Grade	2012	2013	2014	2015
Kdgt.	63	64	73	65
1-3	218	203	199	195
4-6	213	204	213	221
7-12	361	388	368	368
Total K-12 ADM	855	859	853	849
ADM Change	21	4	(6)	(4)
Percent Change	2.5%	0.5%	-0.7%	-0.5%

Over the last four years the District has experienced a decrease in average daily membership by 6 students or -0.7%. 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	
	June 30, 2015	June 30, 2014	Increase (Decrease)	Percent
Local Sources:				
Property Taxes	\$ 359,173	\$ 217,572	\$ 141,601	65.1 %
Earnings on Investments	10,162	15,601	(5,439)	(34.9)
Other	213,956	224,294	(10,338)	(4.6)
State Sources	6,879,385	6,054,509	824,876	13.6
Federal Sources	205,427	199,907	5,520	2.8
Total General Fund Revenue	\$ 7,668,103	\$ 6,711,883	\$ 956,220	14.2

Total General Fund Revenue increased by \$956,220 or 14.2% 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, 2015**

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, 2015	June 30, 2014		
Salaries	\$ 4,092,768	\$ 3,862,613	\$ 230,155	6.0 %
Employee Benefits	1,506,600	1,405,685	100,915	7.2
Purchased Services	1,270,340	1,318,912	(48,572)	(3.7)
Supplies and Materials	260,420	316,931	(56,511)	(17.8)
Capital Expenditures	547,716	163,003	384,713	236.0
Other Expenditures	33,982	32,607	1,375	4.2
Total Expenditures	<u>\$ 7,711,826</u>	<u>\$ 7,099,751</u>	<u>\$ 612,075</u>	8.6

Total General Fund Expenditures increased \$612,075 or 8.6% from the previous year. This increase is primarily attributed to the increased cost of salaries, benefits and capital technology purchases.

In 2014-15, General Fund revenues were less than expenditures and other financing uses by \$74,321. Therefore, the total fund balance decreased to \$2,545,099 at June 30, 2015. After deducting statutory restrictions, the unassigned fund balance decreased from \$1,718,835 at June 30, 2014 to \$1,713,962 at June 30, 2015.

Unassigned fund balance is the single best measure of overall financial health. The unassigned fund balance of \$1,713,962 at June 30, 2015, represents 22% 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 \$325,590 more than expected. The actual expenditures were \$385,665 below budget. While the District's final budget for the general fund anticipated that expenditures would exceed revenues by \$754,978, the actual results for the year show expenditures and other financing uses exceeded revenues by \$74,321.

DEBT SERVICE FUND

The Debt Service Fund revenues were more than expenditures by \$1,198. The remaining fund balance of \$207,478 at June 30, 2015 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, 2015**

OTHER MAJOR FUNDS

Revenues exceeded expenditures in the Food Service Fund by \$10,466. The Community Service Fund revenues and other financing sources exceeded expenditures by \$27,100.

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 2015, 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 \$445,027.

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

	2015	2014	Percentage Change
Land	\$ 459,823	\$ 459,823	-
Land Improvements	2,151,741	2,151,741	-
Buildings and Improvements	14,211,832	14,204,232	0.1
Equipment	702,457	697,639	0.7
Less: Accumulated Depreciation	(5,274,403)	(4,832,158)	9.2
Total	<u>\$ 12,251,450</u>	<u>\$ 12,681,277</u>	(3.4)

Long-Term Liabilities

At year-end, the District had \$11,870,000 in general obligation bonds outstanding. The District also had an estimated \$531,579 in severance and other postemployment benefits payable at June 30, 2015, an increase of \$59,214 since June 30, 2014. In addition, the District has a net pension liability in the amount of \$3,847,434 at June 30, 2015.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

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

	2015	2014	Percentage Change
General Obligation Bonds	\$ 11,870,000	\$ 12,360,000	(3.96)%
Net Bond Premium and Discount	-	4,494	(100.0)
Obligations Under Capital Leases	9,899	14,494	(31.7)
Net Pension Payable	3,847,434	-	N/A
Other Postemployment Benefits Payable	431,686	364,696	18.4
Severance Benefits Payable	99,893	107,669	(7.2)
Total	<u>\$ 16,258,912</u>	<u>\$ 12,851,353</u>	26.5
Long-Term Liabilities:			
Due Within One Year	\$ 539,976	\$ 517,089	
Due in More Than One Year	15,718,936	12,334,264	
	<u>\$ 16,258,912</u>	<u>\$ 12,851,353</u>	

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.

BASIC FINANCIAL STATEMENTS

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF NET POSITION
JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	Governmental Activities	
	2015	2014
ASSETS		
Cash and Investments	\$ 3,725,435	\$ 3,652,496
Receivables:		
Property Taxes	830,518	664,352
Other Governments	782,535	627,850
Other	7,830	24,314
Inventories	2,019	1,276
Capital Assets:		
Land	459,823	459,823
Other Capital Assets, Net of Depreciation	11,791,627	12,221,454
Total Assets	<u>17,599,787</u>	<u>17,651,565</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	<u>727,234</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>727,234</u>	<u>-</u>
LIABILITIES		
Salaries and Withholdings Payable	682,490	604,974
Accounts Payable	49,909	40,713
Accrued Interest	210,680	216,971
Due to Other Governmental Units	25,142	32,261
Unearned Revenue	53,246	51,781
Long-Term Liabilities:		
Portion Due Within One Year	539,976	517,089
Portion Due in More Than One Year	15,718,936	12,334,264
Total Liabilities	<u>17,280,379</u>	<u>13,798,053</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	1,552,806	1,222,330
Pension Related	1,186,301	-
Total Deferred Inflows of Resources	<u>2,739,107</u>	<u>1,222,330</u>
NET POSITION		
Net Investment in Capital Assets	371,551	302,289
Restricted for:		
Operating Capital Purposes	93,385	66,380
State-Mandated Restrictions	36,120	68,092
Food Service	102,049	91,583
Community Service	95,495	67,980
Debt Service	24,160	4,790
Unrestricted	<u>(2,415,225)</u>	<u>2,030,068</u>
Total Net Position	<u>\$ (1,692,465)</u>	<u>\$ 2,631,182</u>

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

2015			
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 538,169	\$ -	\$ -
District Support Services	330,753	68,260	-
Regular Instruction	4,137,849	68,868	723,983
Vocational Education Instruction	222,434	-	8,550
Special Education Instruction	750,836	849	677,216
Instructional Support Services	893,217	12,630	-
Pupil Support Services	584,498	-	1,376
Sites and Buildings	604,714	3,080	-
Fiscal and Other Fixed Cost Programs	37,593	-	-
Food Service	454,968	219,516	239,815
Community Service	194,998	124,810	28,783
Interest and Fiscal Charges on			
Long-Term Liabilities	514,964	-	-
Total School District	<u>\$ 9,264,993</u>	<u>\$ 498,013</u>	<u>\$ 1,679,723</u>

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 - As Previously Stated

Restatement

Net Position - Beginning of Year, As Restated

Net Position - End of Year

See accompanying Notes to Financial Statements.

	2015	2014
	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Revenues	Total	Total
Capital	Governmental	Governmental
Grants and Contributions	Activities	Activities
\$ -	\$ (538,169)	\$ (542,233)
2,212	(260,281)	(253,064)
33,245	(3,311,753)	(3,428,724)
-	(213,884)	(172,170)
-	(72,771)	(307,736)
95,968	(784,619)	(349,270)
-	(583,122)	(547,372)
12,832	(588,802)	(594,264)
-	(37,593)	(39,500)
-	4,363	468
-	(41,405)	(52,400)
-	(514,964)	(671,013)
<u>\$ 144,257</u>	<u>(6,943,000)</u>	<u>(6,957,278)</u>

348,949	234,377
36,566	18,762
957,532	920,210
5,628,888	5,130,874
12,430	18,119
30,616	32,764
<u>7,014,981</u>	<u>6,355,106</u>
71,981	(602,172)
2,631,182	3,233,354
(4,395,628)	-
<u>(1,764,446)</u>	<u>3,233,354</u>
<u>\$ (1,692,465)</u>	<u>\$ 2,631,182</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2015**

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

			Major
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 2,750,134	\$ 111,663	\$ 124,279
Receivables:			
Current Property Taxes	277,198	-	18,488
Delinquent Property Taxes	7,261	-	993
Due from Minnesota Department of Education	699,165	2,742	2,530
Due from Federal through Minnesota Department of Education	66,915	4,302	-
Other Receivables	7,830	-	-
Inventory	-	2,019	-
Total Assets	<u>\$ 3,808,503</u>	<u>\$ 120,726</u>	<u>\$ 146,290</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities:			
Salaries and Withholdings Payable	\$ 672,233	\$ -	\$ 10,257
Accounts Payable	36,038	13,349	522
Due to Other Governmental Units	25,142	-	-
Unearned Revenue	46,343	5,328	1,575
Total Liabilities	<u>779,756</u>	<u>18,677</u>	<u>12,354</u>
Deferred Inflows of Resources:			
Property Taxes Levied for Subsequent Years	476,387	-	38,441
Unavailable Revenue - Delinquent Property Taxes	7,261	-	992
Total Deferred Inflows of Resources	<u>483,648</u>	<u>-</u>	<u>39,433</u>
Fund Balance:			
Nonspendable:			
Inventory	-	2,019	-
Restricted for:			
Staff Development	4,116	-	-
Deferred Maintenance	10,357	-	-
Learning and Development	1	-	-
Gifted and Talented	16,734	-	-
Basic Skills Programs	1	-	-
Health and Safety	(1,951)	-	-
Operating Capital	93,385	-	-
Disabled Accessibility	4,911	-	-
Community Education Programs	-	-	47,263
Early Childhood and Family Educations Programs	-	-	37,817
School Readiness	-	-	9,423
Other Purposes	-	100,030	-
Assigned:			
Assigned for Severance	99,893	-	-
Assigned for Other Postemployment Benefits	500,000	-	-
Assigned for Playground Equipment	4,807	-	-
Assigned for School Security	4,000	-	-
Assigned for Worlds Best Workforce	94,883	-	-
Unassigned	1,713,962	-	-
Total Fund Balance	<u>2,545,099</u>	<u>102,049</u>	<u>94,503</u>
Total Liabilities Deferred Inflows of Resources and Fund Balance	<u>\$ 3,808,503</u>	<u>\$ 120,726</u>	<u>\$ 146,290</u>

See accompanying Notes to Financial Statements.

Funds	Total Governmental	
	Funds	
Debt Service	2015	2014
\$ 739,359	\$ 3,725,435	\$ 3,652,496
499,216	794,902	630,809
27,362	35,616	33,543
6,881	711,318	558,991
-	71,217	68,859
-	7,830	24,314
-	2,019	1,276
<u>\$ 1,272,818</u>	<u>\$ 5,348,337</u>	<u>\$ 4,970,288</u>
\$ -	\$ 682,490	\$ 604,974
-	49,909	40,713
-	25,142	32,261
-	53,246	51,781
<u>-</u>	<u>810,787</u>	<u>729,729</u>
1,037,978	1,552,806	1,222,330
27,362	35,615	33,543
<u>1,065,340</u>	<u>1,588,421</u>	<u>1,255,873</u>
-	2,019	1,276
-	4,116	-
-	10,357	6,462
-	1	-
-	16,734	9,338
-	1	46,631
-	(1,951)	(363)
-	93,385	66,380
-	4,911	5,661
-	47,263	46,801
-	37,817	20,179
-	9,423	423
207,478	307,508	296,587
-	99,893	107,669
-	500,000	500,000
-	4,807	4,807
-	4,000	4,000
-	94,883	150,000
-	1,713,962	1,718,835
<u>207,478</u>	<u>2,949,129</u>	<u>2,984,686</u>
<u>\$ 1,272,818</u>	<u>\$ 5,348,337</u>	<u>\$ 4,970,288</u>

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**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, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

	<u>2015</u>	<u>2014</u>
Total Fund Balance for Governmental Funds	\$ 2,949,129	\$ 2,984,686
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	930,110	1,037,697
Buildings and Improvements, Net of Accumulated Depreciation	10,655,547	10,932,943
Equipment, Net of Accumulated Depreciation	205,970	250,814
The District's Net Pension Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:		
Net Pension Liability	(3,847,434)	-
Deferred Outflows of Resources - Pension Related	727,234	-
Deferred Inflows of Resources - Pension Related	(1,186,301)	-
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.		
	35,615	33,543
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(210,680)	(216,971)
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	(11,870,000)	(12,360,000)
Unamortized Premiums	-	(4,494)
Obligations Under Capital Leases	(9,899)	(14,494)
Other Postemployment Benefits Payable	(431,686)	(364,696)
Severance Benefits Payable	(99,893)	(107,669)
Total Net Position of Governmental Activities	<u>\$ (1,692,465)</u>	<u>\$ 2,631,182</u>

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, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources:			
Property Taxes	\$ 359,173	\$ -	\$ 36,151
Earnings on Investments	10,162	392	377
Other	213,956	219,515	128,193
State Sources	6,879,385	26,633	26,402
Federal Sources	205,427	213,182	-
Total Revenues	7,668,103	459,722	191,123
EXPENDITURES			
Current:			
Administration	534,380	-	-
District Support Services	328,928	-	-
Regular Instruction	3,758,307	-	-
Vocational Education Instruction	219,273	-	-
Special Education Instruction	760,561	-	-
Instructional Support Services	348,789	-	-
Pupil Support Services	581,474	-	-
Sites and Buildings	589,217	-	-
Fiscal and Other Fixed Cost Programs	37,593	-	-
Food Service	-	448,480	-
Community Service	-	-	194,466
Capital Outlay	547,716	776	155
Debt Service:			
Principal	4,595	-	-
Interest and Fiscal Charges	993	-	-
Total Expenditures	7,711,826	449,256	194,621
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(43,723)	10,466	(3,498)
OTHER FINANCING SOURCES (USES)			
Insurance Recovery Proceeds	-	-	-
Transfers In	-	-	30,598
Transfers Out	(30,598)	-	-
Total Other Financing Sources (Uses)	(30,598)	-	30,598
Net Change in Fund Balances	(74,321)	10,466	27,100
Fund Balances - Beginning	2,619,420	91,583	67,403
Fund Balances - Ending	\$ 2,545,099	\$ 102,049	\$ 94,503

See accompanying Notes to Financial Statements.

Funds		Total Governmental Funds	
Debt Service		2015	2014
\$ 945,651	\$	1,340,975	\$ 1,169,719
1,499		12,430	18,119
1		561,665	566,154
68,803		7,001,223	6,161,585
-		418,609	408,146
1,015,954		9,334,902	8,323,723
-		534,380	526,449
-		328,928	313,705
-		3,758,307	3,715,352
-		219,273	176,202
-		760,561	737,268
-		348,789	249,810
-		581,474	549,271
-		589,217	623,602
-		37,593	39,500
-		448,480	447,680
-		194,466	189,450
-		548,647	167,856
490,000		494,595	469,243
524,756		525,749	539,302
1,014,756		9,370,459	8,744,690
1,198		(35,557)	(420,967)
-		-	3,400
-		30,598	28,569
-		(30,598)	(28,569)
-		-	3,400
1,198		(35,557)	(417,567)
206,280		2,984,686	3,402,253
\$ 207,478	\$	2,949,129	\$ 2,984,686

**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, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

	2015	2014
Net Change in Fund Balance-Total Governmental Funds	\$ (35,557)	\$ (417,567)
Amounts reported for governmental activities in the statement of activities are different because:		
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.		
Capital Outlays	15,200	5,900
Gain (Loss) on Disposal of Capital Assets	-	(1,561)
Depreciation Expense	(445,027)	(446,274)
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.		
Principal Payments - Capital Leases	4,595	4,243
Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the Statement of Activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources.		
	89,127	-
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:		
Repayment of Bond Principal	490,000	465,000
Change in Accrued Interest Expense - General Obligation Bonds	6,291	5,980
Amortization of Bond Issuance Costs	-	(151,171)
Amortization of Bond Premium	4,494	13,480
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.		
	2,072	3,630
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).		
	(59,214)	(83,832)
Change in Net Position of Governmental Activities	\$ 71,981	\$ (602,172)

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, 2015**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final	Amounts	
REVENUES				
Local Sources:				
Property Taxes	\$ 324,488	\$ 324,488	\$ 359,173	\$ 34,685
Earnings on Investments	17,055	16,060	10,162	(5,898)
Other	181,641	201,578	213,956	12,378
State Sources	6,586,651	6,586,204	6,879,385	293,181
Federal Sources	214,093	214,183	205,427	(8,756)
Total Revenues	<u>7,323,928</u>	<u>7,342,513</u>	<u>7,668,103</u>	<u>325,590</u>
EXPENDITURES				
Current:				
Administration	543,968	534,565	534,380	(185)
District Support Services	334,829	339,829	328,928	(10,901)
Regular Instruction	3,947,555	3,840,062	3,758,307	(81,755)
Vocational Education Instruction	184,569	240,180	219,273	(20,907)
Special Education Instruction	870,182	891,316	760,561	(130,755)
Instructional Support Services	391,690	351,070	348,789	(2,281)
Pupil Support Services	600,178	618,863	581,474	(37,389)
Sites and Buildings	644,540	643,451	589,217	(54,234)
Fiscal and Other Fixed Cost Programs	35,500	35,500	37,593	2,093
Capital Outlay	598,009	597,066	547,716	(49,350)
Debt Service				
Principal	-	4,243	4,595	352
Interest and Fiscal Charges	-	1,346	993	(353)
Total Expenditures	<u>8,151,020</u>	<u>8,097,491</u>	<u>7,711,826</u>	<u>(385,665)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(827,092)	(754,978)	(43,723)	711,255
OTHER FINANCING USES				
Transfers Out	-	-	(30,598)	(30,598)
Total Other Financing Sources Uses	<u>-</u>	<u>-</u>	<u>(30,598)</u>	<u>(30,598)</u>
Net Change in Fund Balances	<u>\$ (827,092)</u>	<u>\$ (754,978)</u>	<u>(74,321)</u>	<u>\$ 680,657</u>
FUND BALANCE				
Beginning of Year			<u>2,619,420</u>	
End of Year			<u>\$ 2,545,099</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, 2015**

	Budgeted Amounts		Actual	Over
	Original	Final	Amounts	(Under) Final Budget
REVENUES				
Local Sources:				
Earnings on Investments	\$ 500	\$ 500	\$ 392	\$ (108)
Other - Primarily Meal Sales	257,300	242,500	219,515	(22,985)
State Sources	22,500	25,000	26,633	1,633
Federal Sources	200,100	211,100	213,182	2,082
Total Revenues	<u>480,400</u>	<u>479,100</u>	<u>459,722</u>	<u>(19,378)</u>
EXPENDITURES				
Current:				
Food Service	487,880	474,500	448,480	(26,020)
Capital Outlay	1,200	1,200	776	(424)
Total Expenditures	<u>489,080</u>	<u>475,700</u>	<u>449,256</u>	<u>(26,444)</u>
Net Change in Fund Balance	<u>\$ (8,680)</u>	<u>\$ 3,400</u>	10,466	<u>\$ 7,066</u>
FUND BALANCE				
Beginning of Year			<u>91,583</u>	
End of Year			<u>\$ 102,049</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, 2015**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final	Amounts	
REVENUES				
Local Sources:				
Property Taxes	\$ 37,094	\$ 37,094	\$ 36,151	\$ (943)
Earnings on Investments	200	200	377	177
Other - Primarily Tuition and Fees	125,986	134,485	128,193	(6,292)
State Sources	27,863	27,863	26,402	(1,461)
Total Revenues	191,143	199,642	191,123	(8,519)
EXPENDITURES				
Current:				
Community Service	222,202	226,286	194,466	(31,820)
Capital Outlay	300	300	155	(145)
Total Expenditures	222,502	226,586	194,621	(31,965)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(31,359)	(26,944)	(3,498)	23,446
OTHER FINANCING SOURCES				
Transfer in	-	-	30,598	30,598
Total Other Financing Sources	-	-	30,598	30,598
Net Change in Fund Balance	\$ (31,359)	\$ (26,944)	27,100	\$ 54,044
FUND BALANCE				
Beginning of Year			67,403	
End of Year			\$ 94,503	

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Private- Purpose Trust
	<hr/>
ASSETS	
Cash and Investments	\$ 57,049
Total Assets	<u>\$ 57,049</u>
NET POSITION	
Held in Trust	\$ 57,049
Total Net Position	<u>\$ 57,049</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2015**

	Private- Purpose Trust
	<hr/>
ADDITIONS	
Gifts and Donations	\$ 56,000
Earnings on Investments	98
Total Additions	<u>56,098</u>
DEDUCTIONS	
Scholarships Awarded	<u>10,950</u>
Total Deductions	<u>10,950</u>
Change in Net Position	45,148
Net Position - Beginning of Year	<u>11,901</u>
Net Position - End of Year	<u>\$ 57,049</u>

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015**

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, 2015**

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, 2015**

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, 2015**

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. Certain other portions of the District's 2014 Pay 2015 levy, normally revenue for the 2015-2016 fiscal year, are also advance recognized at June 30, 2015, 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, 2015, 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, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense) until that time. The District has one type of item that qualifies as this reporting element, pension related.

L. 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.

M. 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 2015, severance payments totaled \$12,000. A liability for severance payable totaling \$99,893 is recorded in the Statement of Net Position.

Other Postemployment 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, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Pension

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

O. 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 three 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. The third type, pension related, is reported in the statement of net position. These amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

P. 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.

Q. 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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance (Continued)

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.

R. 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.

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.

S. 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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Restatement Due to a Change in Accounting Principle

During the year ended June 30, 2015, the District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and related Statement No. 71. This pronouncement requires the restatement of the June 30, 2014, net position of the governmental activities as follows:

	<u>Governmental</u>
Net Position, June 30, 2014, as Previously Reported	\$ 2,631,182
Cumulative Affect of Application of GASB 68, Net Pension Liability	(4,670,681)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for District Contributions Made to the Plan During Fiscal Year Ending June 30, 2014	275,053
Net Position, June 30, 2014, as Restated	<u><u>\$ (1,764,446)</u></u>

U. 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, 2014, 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, 2015:

	<u>Transfer In</u>
	<u>Community</u>
	<u>Service Fund</u>
Transfer Out:	
General Fund	<u><u>\$ 30,598</u></u>

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, 2015**

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, 2015 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, 2015**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

Deposits	<u>\$ 3,782,484</u>
Cash and Investments - Statement of Net Position	\$ 3,725,435
Cash and Investments - Statement of Fiduciary Net Position	57,049
Total Cash and Investments	<u>\$ 3,782,484</u>

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 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	7,600	-	14,211,832
Equipment	697,639	7,600	(2,782)	702,457
Total Capital Assets, Being Depreciated	17,053,612	15,200	(2,782)	17,066,030
Accumulated Depreciation for:				
Land Improvements	(1,114,044)	(107,587)	-	(1,221,631)
Buildings and Improvements	(3,271,289)	(284,996)	-	(3,556,285)
Equipment	(446,825)	(52,444)	2,782	(496,487)
Total Accumulated Depreciation	(4,832,158)	(445,027)	2,782	(5,274,403)
Total Capital Assets, Being Depreciated, Net	12,221,454	(429,827)	-	11,791,627
Governmental Activities Capital Assets, Net	<u>\$ 12,681,277</u>	<u>\$ (429,827)</u>	<u>\$ -</u>	<u>\$ 12,251,450</u>

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

Governmental Activities	
Regular Instruction	\$ 416,022
Instructional Support Services	15,913
Sites and Buildings	7,380
Food Service	5,712
Total Depreciation Expense, Governmental Activities	<u>\$ 445,027</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 refinance 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	\$ 535,000	\$ 11,870,000
Total General Obligation Bonds				535,000	11,870,000
Lease Purchase Obligations:					
Capital Lease Payable				4,976	9,899
Total Leases Purchase Obligations				4,976	9,899
Net Pension Payable				-	3,847,434
Other Postemployment Benefits Payable				-	431,686
Severance Payable				-	99,893
				<u>\$ 539,976</u>	<u>\$ 16,258,912</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
2016	\$ 535,000	\$ 505,632
2017	555,000	484,231
2018	580,000	462,031
2019	605,000	438,831
2020	625,000	414,631
2021 - 2025	3,555,000	1,666,731
2026 - 2030	4,415,000	843,631
2031	1,000,000	50,000
	<u>\$ 11,870,000</u>	<u>\$ 4,865,718</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 aggregated \$1,668,455. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, were dedicated to retire these bonds. The Bonds were fully retired on February 1, 2015.

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 \$16,077 at June 30, 2015.

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, 2015:

<u>Year Ending June 30,</u>	
2015	\$ 5,588
2016	<u>5,122</u>
Total Minimum Lease Payments	10,710
Less Amounts Representing Interest	<u>811</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 9,899</u></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, 2015**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

	June 30, 2014			June 30, 2015
	As Restated	Additions	Retirements	
Bonds Payable	\$ 12,360,000	\$ -	\$ 490,000	\$ 11,870,000
Bond Premium	4,494	-	4,494	-
Capital Leases Payable	14,494	-	4,595	9,899
Net Pension Liability	4,670,681	-	823,247 *	3,847,434
Other Postemployment				
Benefits Payable	364,696	112,949	45,959	431,686
Severance Payable	107,669	4,224	12,000	99,893
	<u>\$ 17,522,034</u>	<u>\$ 117,173</u>	<u>\$ 1,380,295</u>	<u>\$ 16,258,912</u>

* - Presented as Net Change

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 Learning and Development

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

D. Restricted for Gifted and Talented

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

Fund Equity (Continued)

E. 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.

F. 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.

G. Restricted for Operating Capital

The District levies taxes and receives state aid to be used for the purchase or 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.

H. Restricted for Disabled Accessibility

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

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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

Fund Equity (Continued)

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.

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 Worlds 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 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA and TRA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*. PERA and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA)

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with *Minnesota Statutes*, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. Benefits Provided

PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

PERA: Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. TRA Benefits

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years of Service are Up to July 1, 2006	1.2% per Year
	First Ten Years, If Service Years are July 1, 2006 or After	1.4% per Year
	All Other Years of Service If Service Years are Up to July 1, 2006	1.7% per Year
	All Other Years of Service If Services Years are July 1, 206 or After	1.9% per Year

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) 3.0% per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9% per year for coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

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

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contribution Rate

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2015, were \$48,050. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	<u>Ending June 30, 2014</u>		<u>Ending June 30, 2015</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	10.5 %	11.0 %	11.0 %	11.5 %
Coordinated	7.0	7.0	7.5	7.5

The District's contributions to TRA for the plan's fiscal year ended June 30, 2015, were \$257,813. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2015, the District reported a liability of \$535,637 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.0114%.

For the year ended June 30, 2015, the District recognized pension expense of \$39,754 for its proportionate share of GERF's pension expense.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

At June 30, 2015, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 8,219	\$ -
Changes in Actuarial Assumptions	55,190	-
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	144,696
District Contributions Subsequent to the Measurement Date	48,050	-
Total	<u>\$ 111,459</u>	<u>\$ 144,696</u>

Of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$48,050 reported as deferred outflows will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2016	\$ (15,038)
2017	(15,038)
2018	(15,038)
2019	(36,173)

2. TRA Pension Costs

At June 30, 2015, the District reported a liability of \$3,311,797 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0719% at the end of the measurement period and 0.0706% for the beginning of the period.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

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

Description	Amount
District's Proportionate Share of the TRA	
Net Pension Liability	\$ 3,311,797
State's Proportionate Share of TRA's Net Pension	
Liability Associated with the District	233,199

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer.

For the year ended June 30, 2015, the District recognized pension expense of \$176,983. It also recognized \$10,173 as pension expense for the support provided by direct aid.

At June 30, 2015, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 282,697	\$ -
Net Difference Between Projected and Actual		
Investment Earnings	-	1,041,605
Changes in Proportion Differences and Between Contributions		
Made and the District's Proportionate Share of		
Contributions	75,265	-
District Contributions Subsequent to the		
Measurement Date	257,813	-
Total	<u>\$ 615,775</u>	<u>\$ 1,041,605</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

Of resources related to pensions resulting from District contributions to TRA subsequent measurement date, \$257,813 reported as deferred outflows will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2016	\$ (185,670)
2017	(185,670)
2018	(185,670)
2019	(185,670)
2020	59,037

E. Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.75%	3.50%
		3.75% Based on Years of
Active Member Payroll Growth	3.50% per Year	Service
Investment Rate of Return	7.90%	8.25%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the actuarial experience study for the period of July 1, 2004, to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The following changes in actuarial assumptions for GERF occurred in 2014: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

There was a change in actuarial assumptions that affected the measurement of the total liability for TRA since the prior measurement date. Postretirement benefit adjustments are now assumed to increase from 2.0% annually to 2.5% annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

The long-term expected rate of return on pension plan investments is 7.9% for GERF and 8.25% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45%	5.50%
International Equity	15	6.00
Bonds	18	1.45
Alternative Assets	20	6.40
Cash	2	.50
Totals	100	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.25% for TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
District's Proportionate Share of the GERF Net Pension Liability	\$ 863,272	\$ 535,637	\$ 265,848
<u>TRA Discount Rate</u>	7.25%	8.25%	9.25%
District's Proportionate Share of the TRA Net Pension Liability	\$ 5,475,420	\$ 3,311,797	\$ 1,510,473

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary's net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

I. 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, 2015, 2014, and 2013 are \$38,927, \$32,113, and \$31,039, respectively. The related employee contributions were \$57,343, \$67,067, and \$57,216, for the years ended June 30, 2015, 2014, and 2013, respectively.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 2015, the District contributed \$45,959.

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	16,411
Adjustment to Annual Required Contribution	<u>(22,907)</u>
Annual OPEB Cost (Expense)	112,949
Contributions Made	<u>(45,959)</u>
Increase in Net OPEB Obligation	66,990
Net OPEB Obligation - Beginning of Year	<u>364,696</u>
Net OPEB Obligation - End of Year	<u><u>\$ 431,686</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB liability for 2015 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
6/30/2015	\$ 112,949	40.7%	\$ 431,686
6/30/2014	113,255	29.8%	364,696
6/30/2013	120,292	23.2%	285,180

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$908,395. The annual payroll for active employees covered by the plan in the actuarial valuation was \$3,337,112 for a ratio of UAAL to covered payroll of 27.2%.

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, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% 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 7.5% reduced by decrements to an ultimate rate of 5.0% after ten years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2015 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, 2015**

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 \$60,952 for the year ended June 30, 2015.

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

	2015	2014
Unpaid Claims, Beginning of Year	\$ 2,171	\$ 1,196
Incurred Claims	60,952	59,927
Claims Payments (Cash Basis)	<u>(57,672)</u>	<u>(58,952)</u>
Unpaid Claims, End of Year	<u>\$ 5,451</u>	<u>\$ 2,171</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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.

REQUIRED SUPPLEMENTARY INFORMATION

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2015**

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)
7/1/2014	\$ -	\$ 908,395	\$ 908,395	0.0%	\$ 3,337,112	27.2%
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%

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2015**

Fiscal Year	<u>2015</u>
Measurement Date	6/30/14
PERA	
District's Proportion of the Net Pension Liability (Asset)	0.0114%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 535,637
District's Covered-Employee Payroll	599,378
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	89.37%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.70%
TRA	
District's Proportion of the Net Pension Liability (Asset)	0.0719%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 3,311,797
State's Proportionate Share of the Net Pension Liability Associated with District	<u>233,199</u>
	\$ 3,544,996
District's Covered-Employee Payroll	3,282,443
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	100.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.50%

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
JUNE 30, 2015**

	<u>2015</u>
PERA	
Contractually Required Contribution	\$ 48,050
Contributions in Relation to the Contractually Required Contribution	(48,050)
Contribution Deficiency (Excess)	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 649,353
Contributions as a Percentage of Covered Employee Payroll	7.40%
TRA	
Contractually Required Contribution	\$ 257,813
Contributions in Relation to the Contractually Required Contribution	(257,813)
Contribution Deficiency (Excess)	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 3,437,508
Contributions as a Percentage of Covered Employee Payroll	7.50%

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OTHER REQUIRED REPORTS

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**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, 2015, 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 October 23, 2015.

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 2015-001 to be a material weakness.

Compliance and Other Matters

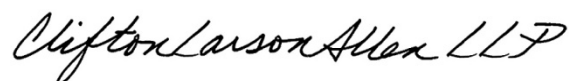
As part of obtaining reasonable assurance about whether Independent School District No. 763's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Austin, Minnesota
October 23, 2015

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

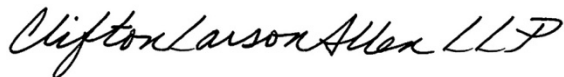
Board of Education
Independent School District No. 763
Medford, Minnesota

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, 2015, and the related notes to the financial statements and have issued our report thereon dated October 23, 2015.

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*. 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.

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
October 23, 2015

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
SUMMARY OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS

Finding: 2015-001 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, 2016

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
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2015

01 GENERAL FUND	Audit	UFARS	Difference	06 BUILDING CONSTRUCTION	Audit	UFARS	Difference
Total Revenues	\$ 7,668,103	\$ 7,668,092	\$ 11	Total Revenues	\$ -	\$ -	\$ -
Total Expenditures	\$ 7,711,826	\$ 7,711,816	\$ 10	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	\$ -	\$ -	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	\$ 4,116	\$ 4,116	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 10,357	\$ 10,357	\$ -	409 Alternative Fac. Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (1,951)	\$ (1,951)	\$ -	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	\$ 93,385	\$ 93,385	\$ -	Total Revenues	\$ 1,015,954	\$ 1,015,954	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	Total Expenditures	\$ 1,014,756	\$ 1,014,756	\$ -
427 Disabled Accessibility	\$ 4,911	\$ 4,911	\$ -	<i>Restricted/Reserved:</i>			
428 Learning & Development	\$ 1	\$ 1	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	464 Other Purposes	\$ 207,478	\$ 207,478	\$ -
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
438 Gifted & Talented	\$ 16,734	\$ 16,734	\$ -	463 Unassigned	\$ -	\$ -	\$ -
441 Basic Skills	\$ 1	\$ 1	\$ -				
445 Career and Tech. Programs	\$ -	\$ -	\$ -	08 TRUST			
446 First Grade Preparedness	\$ -	\$ -	\$ -	Total Revenues	\$ 56,098	\$ 56,098	\$ -
449 Safe Schools Levy	\$ -	\$ -	\$ -	Total Expenditures	\$ 10,950	\$ 10,950	\$ -
450 Pre-Kindergarten	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
451 QZAB Payments	\$ -	\$ -	\$ -	422 Unassigned	\$ 57,049	\$ 57,049	\$ -
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	\$ 703,583	\$ 703,583	\$ -	Total Expenditures	\$ -	\$ -	\$ -
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned	\$ 1,713,962	\$ 1,713,960	\$ 2	422 Unassigned	\$ -	\$ -	\$ -
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST			
Total Revenues	\$ 459,722	\$ 459,720	\$ 2	Total Revenues	\$ -	\$ -	\$ -
Total Expenditures	\$ 449,256	\$ 449,255	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable	\$ 2,019	\$ 2,019	\$ -	422 Unassigned	\$ -	\$ -	\$ -
<i>Restricted:</i>							
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -	45 OPEB IRREVOCABLE TRUST			
464 Other Purposes	\$ 100,030	\$ 100,030	\$ -	Total Revenues	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	\$ -	\$ -	\$ -
463 Unassigned	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
				422 Unassigned	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE							
Total Revenues	\$ 191,123	\$ 191,123	\$ -	47 OPEB DEBT SERVICE			
Total Expenditures	\$ 194,621	\$ 194,622	\$ (1)	Total Revenues	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total Expenditures	\$ -	\$ -	\$ -
460 Nonspendable	\$ -	\$ -	\$ -	<i>Restricted:</i>			
<i>Restricted:</i>				464 Other Purposes	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
431 Community Education	\$ 47,263	\$ 47,263	\$ -	463 Unassigned	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ 37,817	\$ 37,817	\$ -				
444 School Readiness	\$ 9,423	\$ 9,423	\$ -				
447 Adult Basic Education	\$ -	\$ -	\$ -				
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ -	\$ -	\$ -				
<i>Unassigned:</i>							
463 Unassigned	\$ -	\$ -	\$ -				

STUDENT ACTIVITY FUNDS

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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, 2015, 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 2015, 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, 2015, 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
October 23, 2015

**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, 2015**

<u>Funds</u>	<u>Balance June 30, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2015</u>
M Club	\$ 356	\$ 3,020	\$ 2,349	\$ 1,027
Art Club	64	-	1	63
Band	5,023	2,933	3,435	4,521
Bank	41	151	186	6
Tiger's Den	311	-	166	145
Elementary St. Council	938	1,848	1,617	1,169
FFA	1,085	33,770	30,019	4,836
Middle School Team	439	4,607	4,582	464
Music Activity	2,570	9,490	9,456	2,604
NHS	769	4,619	4,037	1,351
SADD	1,925	92	7	2,010
Student Council	7,861	47,743	48,590	7,014
Trapshooting Team	2,189	9,360	8,317	3,232
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 23,571</u>	<u>\$ 117,633</u>	<u>\$ 112,762</u>	<u>\$ 28,442</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, 2015**

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.

**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, 2015, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated October 23, 2015. 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 item 2015-002. 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 the District's noncompliance with the above-referenced provisions.

The District's written response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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
October 23, 2015

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

FINDING: 2015-002 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, 2016

Plan to Monitor Completion of CAP:

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