

INDEPENDENT SCHOOL DISTRICT NO. 763

**FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2017

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

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2017**

BOARD OF EDUCATION

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

* * * * *

ADMINISTRATION

Rich Dahman *	Superintendent
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* Resigned June 30, 2017 and was replaced by Mark Ristau on July 1, 2017.

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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, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the District, 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. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion 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 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 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, 2017, and the respective changes in financial position and budgetary comparison for the 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited Independent School District No. 763's 2016 financial statements of the governmental activities, each major fund and the aggregate remaining fund information as of and for the year ended June 30, 2016, and we expressed unmodified opinions on those audited financial statements in our report dated November 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress for Postemployment Benefit Plan, Schedule of the District's Proportionate Share of the Net Pension Liability, and 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 Uniform Financial Accounting and Reporting Standards Compliance Table 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 30, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
October 30, 2017

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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, 2017**

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, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-2017 fiscal years include the following:

- Net Position on June 30, 2016 was \$(818,728) and on June 30, 2017 was \$(2,161,511).
- Overall General Fund revenues were \$8,910,194 as compared to \$8,121,893 of expenditures.
- General Fund fund balance increased \$778,876 from the prior year. The major factors contributing to the increase was additional revenues and underspent expenditure budgets.

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 nonfinancial 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, 2017**

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, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was \$(2,161,511) on June 30, 2017.

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

	Governmental Activities as of June 30,		Percentage Change
	2017	2016	
Current and Other Assets	\$ 8,555,475	\$ 6,243,039	37.04 %
Capital Assets and Noncurrent Assets	12,933,944	11,855,970	9.09
Total Assets	<u>21,489,419</u>	<u>18,099,009</u>	18.73
 Total Deferred Outflows of Resources	10,558,311	945,398	1016.81
Current Liabilities	3,062,407	1,623,188	88.67
Long-Term Liabilities	29,413,012	16,195,131	81.62
Total Liabilities	<u>32,475,419</u>	<u>17,818,319</u>	82.26
 Total Deferred Inflows of Resources	<u>1,733,822</u>	<u>2,044,816</u>	(15.21)
Net Position:			
Net Investment in Capital Assets	366,244	381,606	(4.03)
Restricted	470,959	448,296	5.06
Unrestricted	(2,998,714)	(1,648,630)	81.89
Total Net Position	<u>\$ (2,161,511)</u>	<u>\$ (818,728)</u>	164.01

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$10,737,573 for the year ended June 30, 2017. Property taxes and state formula aid accounted for 73% of total revenue for the year (see Figure A-1.) One percent came from other general revenues combined with investment earnings and the remaining 26% came from program revenues.

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

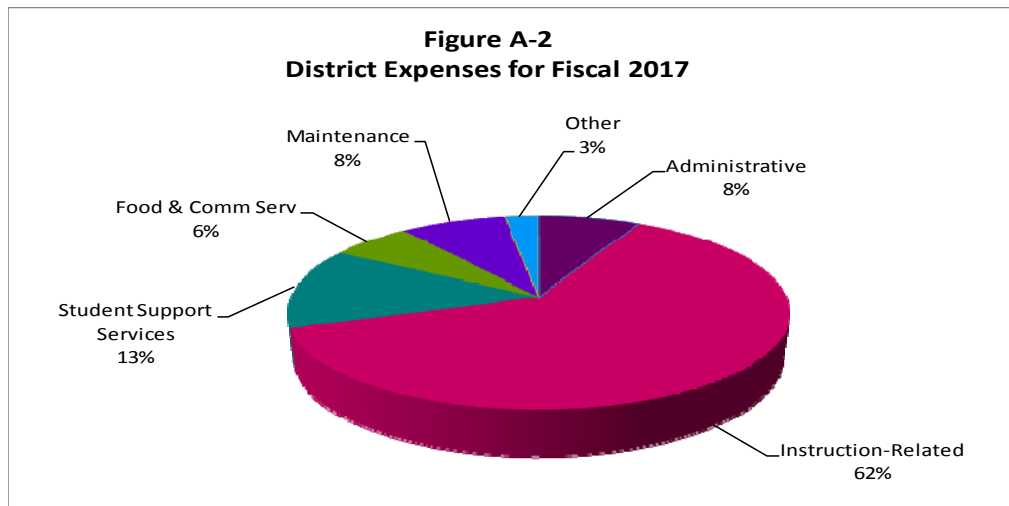
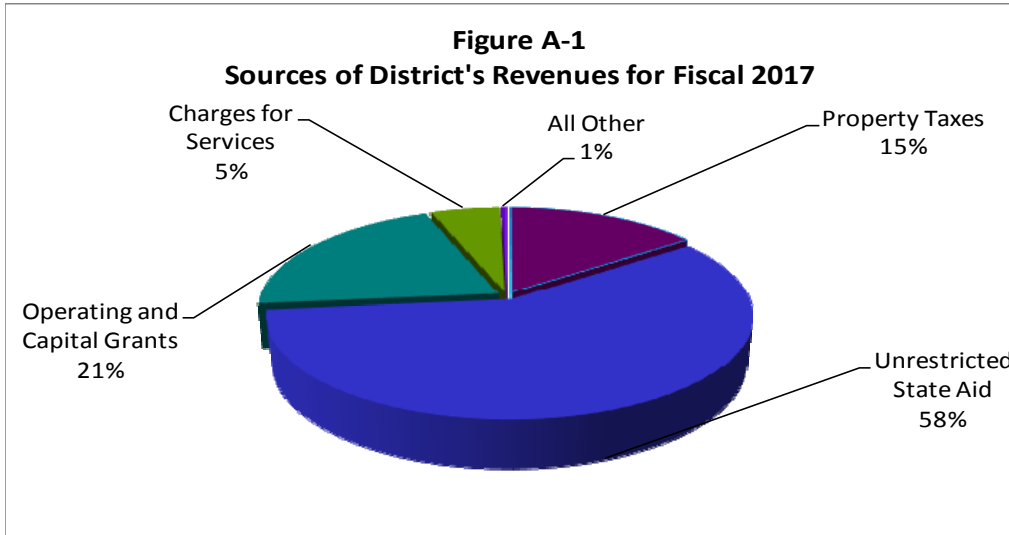
	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2017	2016	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 581,202	\$ 540,392	7.55 %
Operating Grants and Contributions	2,087,919	1,807,479	15.52
Capital Grants and Contributions	138,729	140,294	(1.12)
<u>General Revenues</u>			
Property Taxes	1,617,271	1,689,196	(4.26)
Unrestricted State Aid	6,268,076	6,033,969	3.88
Investment Earnings	19,666	23,985	(18.01)
Other	24,710	30,019	(17.69)
Total Revenues	10,737,573	10,265,334	4.60
Expenses			
Administration	927,900	548,592	69.14
District Support Services	350,043	339,479	3.11
Regular Instruction	6,040,092	4,454,015	35.61
Vocational Education Instruction	318,597	213,628	49.14
Special Education Instruction	1,183,634	814,365	45.34
Instructional Support Services	515,062	411,610	25.13
Pupil Support Services	726,964	574,044	26.64
Sites and Buildings	961,864	690,265	39.35
Fiscal and Other Fixed Cost Programs	24,817	26,376	(5.91)
Food Service	500,398	498,542	0.37
Community Service	247,468	207,186	19.44
Interest and Fiscal Charges on Long-Term Liabilities	283,517	613,495	(53.79)
Total Expenses	12,080,356	9,391,597	28.63
Change in Net Position	(1,342,783)	873,737	
Beginning Net Position	(818,728)	(1,692,465)	
Ending Net Position	\$ (2,161,511)	\$ (818,728)	

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$12,080,356. Total expenses surpassed revenues, decreasing net position \$1,342,783 compared to last year.

- Some of the cost was paid by the users of the District's programs (\$581,202).
- The federal and state governments subsidized certain programs with grants and contributions (\$2,226,648).
- Most of the District's costs (\$9,272,506), however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$1,617,271 in property taxes, \$6,268,076 of state aid based on the statewide education aid formula, and with investment earnings and other general revenues.



**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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
	2017	2016		2017	2016	
Administration	\$ 927,900	\$ 548,592	69.14 %	\$ 907,523	\$ 548,592	65.43 %
District Support Services	350,043	339,479	3.11	278,296	269,622	3.22
Regular Instruction	6,040,092	4,454,015	35.61	4,870,763	3,505,518	38.95
Vocational Education Instruction	318,597	213,628	49.14	284,838	169,396	68.15
Special Education Instruction	1,183,634	814,365	45.34	499,088	214,622	132.54
Instructional Support Services	515,062	411,610	25.13	474,246	357,122	32.80
Pupil Support Services	726,964	574,044	26.64	720,527	557,255	29.30
Sites and Buildings	961,864	690,265	39.35	863,350	608,918	41.78
Fiscal and Other Fixed Cost Programs	24,817	26,376	(5.91)	24,817	26,376	(5.91)
Food Service	500,398	498,542	0.37	(22,285)	(20,318)	9.68
Community Service	247,468	207,186	19.44	87,826	52,834	66.23
Interest and Fiscal Charges on Long-Term Liabilities	283,517	613,495	(53.79)	283,517	613,495	(53.79)
	<u>\$ 12,080,356</u>	<u>\$ 9,391,597</u>	28.63	<u>\$ 9,272,506</u>	<u>\$ 6,903,432</u>	34.32

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 \$4,751,560, which includes Debt Service. Total fund balance excluding Debt Service, amounted to \$4,557,260, an increase of \$913,051 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 87% 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, 2017**

GENERAL FUND (CONTINUED)

Enrollment

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

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

Grade	2013	2014	2015	2016	2017
Pre-Kdgt. & Kdgt.	64	73	65	74	71
1 - 3	203	199	195	194	206
4 - 6	204	213	221	229	217
7 - 12	388	368	368	386	398
Total K-12 ADM	859	853	849	883	892
ADM Change	N/A	(6)	(4)	34	9
Percent Change	N/A	-0.7%	-0.5%	4.0%	1.0%

Over the last five years the District has experienced flat enrollment with an increase in average daily membership by 33 students or 3.8% in the last year. 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**

	Year Ended		Change	
	June 30, 2017	June 30, 2016	Increase (Decrease)	Percent Change
Local Sources:				
Property Taxes	\$ 699,121	\$ 637,654	\$ 61,467	9.6 %
Earnings on Investments	14,791	11,697	3,094	26.5
Other	270,326	237,824	32,502	13.7
State Sources	7,648,818	7,387,067	261,751	3.5
Federal Sources	277,138	227,123	50,015	22.0
Total General Fund Revenue	<u>\$ 8,910,194</u>	<u>\$ 8,501,365</u>	<u>\$ 408,829</u>	4.8

Total General Fund Revenue increased by \$408,829 or 4.8% 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, 2017**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended			
	June 30, 2017	June 30, 2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 4,370,130	\$ 4,157,517	\$ 212,613	5.11 %
Employee Benefits	1,579,043	1,580,128	(1,085)	(0.07)
Purchased Services	1,558,498	1,418,482	140,016	9.87
Supplies and Materials	380,338	265,493	114,845	43.26
Capital Expenditures	174,835	158,808	16,027	10.09
Other Expenditures	59,049	34,374	24,675	71.78
Total Expenditures	<u>\$ 8,121,893</u>	<u>\$ 7,614,802</u>	<u>\$ 507,091</u>	6.66

Total General Fund Expenditures increased \$507,091 or 6.6% from the previous year. This increase is primarily attributed to the increase in salaries and purchased services.

In 2016-17, General Fund revenues were greater than expenditures by \$778,876. The total fund balance increased to \$4,190,579 at June 30, 2017, after other financing uses of \$9,425. After deducting statutory restrictions, the unassigned fund balance increased from \$2,629,443 at June 30, 2016 to \$3,467,851 at June 30, 2017.

Unassigned fund balance is the single best measure of overall financial health. The unassigned fund balance of \$3,467,851 at June 30, 2017, represents 43% 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 \$257,248 more than expected. The actual expenditures were \$254,620 below budget. While the District's final budget for the general fund anticipated that revenues would exceed expenditures by \$276,433, the actual results for the year show revenues exceeded expenditures by \$788,301.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

DEBT SERVICE FUND

The Debt Service Fund revenues and other financing sources were less than expenditures by \$25,118. The remaining fund balance of \$194,300 at June 30, 2017 is available for meeting future debt service obligations.

OTHER MAJOR FUNDS

Revenues exceeded expenditures in the Food Service Fund by \$30,068. The Community Service Fund revenues and other financing sources exceeded expenditures by \$362.

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.

The District issued \$1,770,000 in bonds to finance improvements to the school building. At the close of fiscal year 2017, \$103,745 remains in the Capital Projects fund for that project.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the District had invested slightly more than \$19.0 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 \$434,745.

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

	2017	2016	Percentage Change
Land	\$ 459,823	\$ 459,823	- %
Construction in Progress	1,415,852	-	N/A
Land Improvements	2,212,710	2,151,741	2.8
Buildings and Improvements	14,211,832	14,211,832	-
Equipment	736,902	706,604	4.3
Less: Accumulated Depreciation	(6,103,175)	(5,674,030)	7.6
Total	<u>\$ 12,933,944</u>	<u>\$ 11,855,970</u>	9.1

Long-Term Liabilities

At year-end, the District had \$12,320,000 in general obligation bonds outstanding. The District also had \$656,974 in severance and other postemployment benefits payable at June 30, 2017, an increase of \$56,918 since June 30, 2016.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

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

	2017	2016	Percentage Change
General Obligation Bonds	\$ 12,320,000	\$ 11,120,000	10.8 %
Net Bond Premium and Discount	351,445	349,441	0.6
Capital Lease Payable	-	4,923	(100.0)
Total Long-Term Liabilities	<u>\$ 12,671,445</u>	<u>\$ 11,474,364</u>	10.4
Long-Term Liabilities:			
Due Within One Year	\$ 671,401	\$ 599,162	
Due in More Than One Year	12,000,044	10,875,202	
Total	<u>\$ 12,671,445</u>	<u>\$ 11,474,364</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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	Governmental Activities	
	2017	2016
ASSETS		
Cash and Investments	\$ 6,720,889	\$ 4,456,838
Receivables:		
Property Taxes	815,490	805,340
Other Governments	1,006,618	975,629
Other	9,683	2,574
Inventory	2,795	2,658
Capital Assets:		
Land and Construction in Progress	1,875,675	459,823
Other Capital Assets, Net of Depreciation	11,058,269	11,396,147
Total Assets	<u>21,489,419</u>	<u>18,099,009</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	10,558,311	945,398
Total Deferred Outflows of Resources	<u>10,558,311</u>	<u>945,398</u>
LIABILITIES		
Salaries and Payroll Deduction Payable	698,455	664,953
Accounts and Contracts Payable	1,455,505	86,907
Accrued Interest	138,767	182,456
Due to Other Governmental Units	47,269	37,322
Unearned Revenue	51,010	52,388
Long-Term Liabilities:		
Portion Due Within One Year	671,401	599,162
Portion Due in More Than One Year	12,657,018	11,475,258
Net Pension Liability	16,755,994	4,719,873
Total Liabilities	<u>32,475,419</u>	<u>17,818,319</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	1,517,122	1,505,562
Pension Related	216,700	539,254
Total Deferred Inflows of Resources	<u>1,733,822</u>	<u>2,044,816</u>
NET POSITION		
Net Investment in Capital Assets	366,244	381,606
Restricted for:		
Operating Capital Purposes	55,534	96,161
State-Mandated Reserves	72,282	48,636
Food Service	159,598	129,530
Community Service	104,250	103,809
Capital Purchases	-	10,000
Debt Service	79,295	60,160
Unrestricted	(2,998,714)	(1,648,630)
Total Net Position	<u>\$ (2,161,511)</u>	<u>\$ (818,728)</u>

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

		2017	
Functions	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	\$ 927,900	\$ -	\$ 20,377
District Support Services	350,043	69,664	596
Regular Instruction	6,040,092	89,518	1,004,468
Vocational Education Instruction	318,597	-	33,759
Special Education Instruction	1,183,634	19,302	665,244
Instructional Support Services	515,062	23,457	6,900
Pupil Support Services	726,964	-	6,437
Sites and Buildings	961,864	4,191	42,883
Fiscal and Other Fixed Cost Programs	24,817	-	-
Food Service	500,398	264,490	258,193
Community Service	247,468	110,580	49,062
Interest and Fiscal Charges on Long-Term Liabilities	283,517	-	-
Total School District	<u>\$ 12,080,356</u>	<u>\$ 581,202</u>	<u>\$ 2,087,919</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 - Beginning			
Net Position - Ending			

See accompanying Notes to Financial Statements.

	2017	2016
	Net (Expense) Revenue and Change in Net Position	Net (Expense) Revenue and Change in Net Position
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ -	\$ (907,523)	\$ (548,592)
1,487	(278,296)	(269,622)
75,343	(4,870,763)	(3,505,518)
-	(284,838)	(169,396)
-	(499,088)	(214,622)
10,459	(474,246)	(357,122)
-	(720,527)	(557,255)
51,440	(863,350)	(608,918)
-	(24,817)	(26,376)
-	22,285	20,318
-	(87,826)	(52,834)
-	(283,517)	(613,495)
<u>\$ 138,729</u>	<u>(9,272,506)</u>	<u>(6,903,432)</u>

700,752	638,642
37,454	37,517
879,065	1,013,037
6,268,076	6,033,969
19,666	23,985
24,710	30,019
<u>7,929,723</u>	<u>7,777,169</u>
(1,342,783)	873,737
(818,728)	(1,692,465)
<u>\$ (2,161,511)</u>	<u>\$ (818,728)</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 4,211,930	\$ 178,349	\$ 129,120
Receivables:			
Current Property Taxes	306,585	-	17,565
Delinquent Property Taxes	9,880	-	912
Due from Minnesota Department of Education	817,781	-	4,456
Due from Federal through Minnesota Department of Education	182,186	-	-
Other Receivables	9,683	-	-
Inventory	-	2,795	-
Total Assets	<u>\$ 5,538,045</u>	<u>\$ 181,144</u>	<u>\$ 152,053</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities:			
Salaries and Payroll Deductions Payable	\$ 688,560	\$ -	9,895
Accounts and Contracts Payable	21,266	18,104	283
Due to Other Governmental Units	47,269	-	-
Unearned Revenue	46,343	3,442	1,225
Total Liabilities	<u>803,438</u>	<u>21,546</u>	<u>11,403</u>
Deferred Inflows of Resources:			
Property Taxes Levied for Subsequent Year	534,148	-	36,400
Unavailable Revenue - Delinquent Property Taxes	9,880	-	912
Total Deferred Inflows of Resources	<u>544,028</u>	<u>-</u>	<u>37,312</u>
Fund Balance:			
Nonspendable:			
Inventory	-	2,795	-
Restricted for:			
Staff Development	1	-	-
Deferred Maintenance	-	-	-
Learning and Development	1	-	-
Gifted and Talented	36,057	-	-
Basic Skills Programs	2	-	-
Health and Safety	(4,339)	-	-
Operating Capital	55,534	-	-
Disabled Accessibility	2,940	-	-
Safe Schools Levy	(1)	-	-
LTFM	28,979	-	-
Medical Assistance	4,302	-	-
Community Education Programs	-	-	32,242
Early Childhood and Family Education Programs	-	-	67,577
School Readiness	-	-	3,519
Other Purposes	-	156,803	-
Assigned for:			
Severance	99,252	-	-
Other Postemployment Benefits	500,000	-	-
Playground Equipment	-	-	-
School Security	-	-	-
Worlds Best Workforce	-	-	-
Unassigned	3,467,851	-	-
Total Fund Balance	<u>4,190,579</u>	<u>159,598</u>	<u>103,338</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 5,538,045</u>	<u>\$ 181,144</u>	<u>\$ 152,053</u>

See accompanying Notes to Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2017	2016
\$ 1,519,597	\$ 681,893	\$ 6,720,889	\$ 4,456,838
-	456,786	780,936	773,060
-	23,762	34,554	32,280
-	2,195	824,432	880,364
-	-	182,186	95,265
-	-	9,683	2,574
-	-	2,795	2,658
<u>\$ 1,519,597</u>	<u>\$ 1,164,636</u>	<u>\$ 8,555,475</u>	<u>\$ 6,243,039</u>
\$ -	\$ -	\$ 698,455	\$ 664,953
1,415,852	-	1,455,505	86,907
-	-	47,269	37,322
-	-	51,010	52,388
<u>1,415,852</u>	<u>-</u>	<u>2,252,239</u>	<u>841,570</u>
-	946,574	1,517,122	1,505,562
-	23,762	34,554	32,280
-	<u>970,336</u>	<u>1,551,676</u>	<u>1,537,842</u>
-	-	2,795	2,658
-	-	1	-
-	-	-	14,823
-	-	1	-
-	-	36,057	29,093
-	-	2	-
-	-	(4,339)	(7,049)
-	-	55,534	96,161
-	-	2,940	4,720
-	-	(1)	-
103,745	-	132,724	-
-	-	4,302	-
-	-	32,242	43,701
-	-	67,577	53,464
-	-	3,519	5,811
-	194,300	351,103	356,290
-	-	99,252	99,251
-	-	500,000	500,000
-	-	-	4,807
-	-	-	4,000
-	-	-	26,454
-	-	3,467,851	2,629,443
<u>103,745</u>	<u>194,300</u>	<u>4,751,560</u>	<u>3,863,627</u>
<u>\$ 1,519,597</u>	<u>\$ 1,164,636</u>	<u>\$ 8,555,475</u>	<u>\$ 6,243,039</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 NET POSITION
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
Total Fund Balance for Governmental Funds	\$ 4,751,560	\$ 3,863,627
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
Construction in Progress	1,415,852	-
Land Improvements, Net of Accumulated Depreciation	774,381	822,523
Buildings and Improvements, Net of Accumulated Depreciation	10,085,302	10,370,425
Equipment, Net of Accumulated Depreciation	198,586	203,199
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 unearned revenue in the funds.		
	34,554	32,280
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(138,767)	(182,456)
The District's Net Pension Liability and related Deferred Outflows and Inflows of Resources are recorded only on the Statement of Net Position. Balances at year-end are:		
Net Pension Liability	(16,755,994)	(4,719,873)
Deferred Outflows of Resources - Pensions	10,558,311	945,398
Deferred Inflows of Resources - Pensions	(216,700)	(539,254)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position. Balances at year-end are:		
Bonds Payable	(12,320,000)	(11,120,000)
Unamortized Premiums	(351,445)	(349,441)
Capital Lease Payable	-	(4,923)
Severance Benefits Payable	(99,770)	(99,252)
Other Postemployment Benefits Payable	(557,204)	(500,804)
Total Net Position of Governmental Activities	<u>\$ (2,161,511)</u>	<u>\$ (818,728)</u>

See accompanying Notes to Financial Statements.

MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

		Major	
	General	Food Service	Community Service
REVENUES			
Local Sources:			
Property Taxes	\$ 699,121	\$ -	\$ 37,375
Earnings and Investments	14,791	644	454
Other	270,326	265,917	110,661
State Sources	7,648,818	25,704	45,921
Federal Sources	277,138	232,489	-
Total Revenues	<u>8,910,194</u>	<u>524,754</u>	<u>194,411</u>
EXPENDITURES			
Current:			
Administration	642,771	-	-
District Support Services	340,002	-	-
Elementary and Secondary Regular Instruction	4,114,048	-	-
Vocational Education Instruction	219,332	-	-
Special Education Instruction	909,757	-	-
Instructional Support Services	404,178	-	-
Pupil Support Services	653,152	-	-
Sites and Buildings	633,878	-	-
Fiscal and Other Fixed Cost Programs	24,817	-	-
Food Service	-	494,686	-
Community Service	-	-	203,456
Capital Outlay	174,835	-	18
Debt Service:			
Principal	4,923	-	-
Interest and Fiscal Charges	200	-	-
Total Expenditures	<u>8,121,893</u>	<u>494,686</u>	<u>203,474</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	788,301	30,068	(9,063)
OTHER FINANCING SOURCES (USES)			
Issuance of Bonds	-	-	-
Bond Premium	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Transfers In	-	-	9,425
Transfers Out	(9,425)	-	-
Total Other Financing Sources (Uses)	<u>(9,425)</u>	<u>-</u>	<u>9,425</u>
Net Change in Fund Balances	778,876	30,068	362
Fund Balance - Beginning	3,411,703	129,530	102,976
Fund Balances - Ending	<u>\$ 4,190,579</u>	<u>\$ 159,598</u>	<u>\$ 103,338</u>

See accompanying Notes to Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2017	2016
\$ -	\$ 878,501	\$ 1,614,997	\$ 1,692,531
2,245	1,531	19,665	23,985
-	-	646,904	607,458
-	21,962	7,742,405	7,472,767
-	-	509,627	471,928
<u>2,245</u>	<u>901,994</u>	<u>10,533,598</u>	<u>10,268,669</u>
-	-	642,771	544,927
-	-	340,002	331,842
-	-	4,114,048	3,959,107
-	-	219,332	211,904
-	-	909,757	815,373
-	-	404,178	393,497
-	-	653,152	571,941
-	-	633,878	595,439
-	-	24,817	26,376
-	-	494,686	492,830
-	-	203,456	204,873
1,695,686	-	1,870,539	158,808
-	570,000	574,923	539,976
-	357,152	357,352	655,858
<u>1,695,686</u>	<u>927,152</u>	<u>11,442,891</u>	<u>9,502,751</u>
(1,693,441)	(25,158)	(909,293)	765,918
1,770,000	-	1,770,000	11,120,000
27,226	-	27,226	363,580
-	-	-	(11,335,000)
-	40	9,465	19,959
(40)	-	(9,465)	(19,959)
<u>1,797,186</u>	<u>40</u>	<u>1,797,226</u>	<u>148,580</u>
103,745	(25,118)	887,933	914,498
-	219,418	3,863,627	2,949,129
<u>\$ 103,745</u>	<u>\$ 194,300</u>	<u>\$ 4,751,560</u>	<u>\$ 3,863,627</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	2017	2016
Net Change in Fund Balances - Total Governmental Funds	\$ 887,933	\$ 914,498
Amounts reported for governmental activities in the Statement of Activities are different		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	1,512,719	56,769
Gain (Loss) on Disposal of Capital Assets	-	(10,780)
Depreciation Expense	(434,745)	(441,469)
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.		
Repayment of Capital Lease Principal	4,923	4,976
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, discounts and similar items when debt is first issued, whereas these amounts are deferred and 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:		
General Obligation Bond Proceeds	(1,770,000)	(11,120,000)
Payment to Refunded Bond Escrow Agent	-	11,335,000
Bond Premium	(27,226)	(363,580)
Repayment of General Obligation Bond Principal	570,000	535,000
Change in Accrued Interest Expense - General Obligation Bonds	43,689	28,224
Amortization of Bond Premium	25,222	14,139
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 governmental funds.		
	2,274	(3,335)
Pension expenditures in the governmental funds are measured by current year employee contributions. Pension expenses in the Statement of Activities are measured by the change in Net Pension Liability and the related Deferred Outflows and Inflows of Resources.		
	(2,100,654)	(7,228)
In the Statement of Activities, certain operating expenses - other postemployment benefits payable and severance benefits payable - are measured by 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).		
	(56,918)	(68,477)
Change in Net Position of Governmental Activities	\$ (1,342,783)	\$ 873,737

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, 2017**

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
REVENUES				
Local Sources:				
Property Taxes	\$ 720,063	\$ 720,063	\$ 699,121	\$ (20,942)
Earnings and Investments	15,060	15,060	14,791	(269)
Other	211,125	250,240	270,326	20,086
State Sources	7,329,111	7,404,860	7,648,818	243,958
Federal Sources	264,584	262,723	277,138	14,415
Total Revenues	<u>8,539,943</u>	<u>8,652,946</u>	<u>8,910,194</u>	<u>257,248</u>
EXPENDITURES				
Current:				
Administration	617,611	620,255	642,771	22,516
District Support Services	358,849	418,168	340,002	(78,166)
Elementary and Secondary Regular Instruction	4,276,145	4,242,293	4,114,048	(128,245)
Vocational Education Instruction	226,173	209,983	219,332	9,349
Special Education Instruction	901,114	939,887	909,757	(30,130)
Instructional Support Services	415,856	407,128	404,178	(2,950)
Pupil Support Services	623,939	634,869	653,152	18,283
Sites and Buildings	717,887	690,839	633,878	(56,961)
Fiscal and Other Fixed Cost Programs	60,000	30,000	24,817	(5,183)
Capital Outlay	76,351	177,491	174,835	(2,656)
Debt Service:				
Principal	-	5,000	4,923	(77)
Interest and Fiscal Charges	-	600	200	(400)
Total Expenditures	<u>8,273,925</u>	<u>8,376,513</u>	<u>8,121,893</u>	<u>(254,620)</u>
EXCESS OF REVENUES OVER EXPENDITURES	266,018	276,433	788,301	511,868
OTHER FINANCING USES				
Transfers Out	(30,000)	(20,000)	(9,425)	10,575
Total Other Financing Uses	<u>(30,000)</u>	<u>(20,000)</u>	<u>(9,425)</u>	<u>10,575</u>
NET CHANGES IN FUND BALANCE	<u>\$ 236,018</u>	<u>\$ 256,433</u>	778,876	<u>\$ 522,443</u>
FUND BALANCE				
Beginning of Year			3,411,703	
End of Year			<u>\$ 4,190,579</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, 2017**

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
REVENUES				
Local Sources:				
Earnings and Investments	\$ 2,500	\$ 500	\$ 644	\$ 144
Other - Primarily Meal Sales	225,500	248,500	265,917	17,417
State Sources	27,000	29,000	25,704	(3,296)
Federal Sources	215,100	246,100	232,489	(13,611)
Total Revenues	<u>470,100</u>	<u>524,100</u>	<u>524,754</u>	<u>654</u>
EXPENDITURES				
Current:				
Food Service	473,450	517,900	494,686	(23,214)
Capital Outlay	1,200	1,200	-	(1,200)
Total Expenditures	<u>474,650</u>	<u>519,100</u>	<u>494,686</u>	<u>(24,414)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ (4,550)</u>	<u>\$ 5,000</u>	30,068	<u>\$ 25,068</u>
FUND BALANCE				
Beginning of Year			<u>129,530</u>	
End of Year			<u>\$ 159,598</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES				
Local Sources:				
Property Taxes	\$ 38,296	\$ 38,296	\$ 37,375	\$ (921)
Earnings and Investments	350	350	454	104
Other - Primarily Tuition and Fees	127,885	127,885	110,661	(17,224)
State Sources	43,597	43,597	45,921	2,324
Total Revenues	<u>210,128</u>	<u>210,128</u>	<u>194,411</u>	<u>(15,717)</u>
EXPENDITURES				
Current:				
Community Service	238,433	238,900	203,456	(35,444)
Capital Outlay	300	300	18	(282)
Total Expenditures	<u>238,733</u>	<u>239,200</u>	<u>203,474</u>	<u>(35,726)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(28,605)	(29,072)	(9,063)	20,009
OTHER FINANCING SOURCES				
Transfers In	<u>30,000</u>	<u>20,000</u>	<u>9,425</u>	<u>(10,575)</u>
Total Other Financing Sources	<u>30,000</u>	<u>20,000</u>	<u>9,425</u>	<u>(10,575)</u>
NET CHANGES IN FUND BALANCE	<u>\$ 1,395</u>	<u>\$ (9,072)</u>	362	<u>\$ 9,434</u>
FUND BALANCE				
Beginning of Year			<u>102,976</u>	
End of Year			<u>\$ 103,338</u>	

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF FIDUCIARY FUND NET POSITION
JUNE 30, 2017**

	Private-Purpose Trust
ASSETS	
Cash and Investments	\$ 87,501
Total Assets	<u>\$ 87,501</u>
NET POSITION	
Held In Trust for Scholarships	\$ 87,501
Total Net Position	<u>\$ 87,501</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
YEAR ENDED JUNE 30, 2017**

	Private-Purpose Trust
ADDITIONS	
Gifts and Donations	\$ 6,655
Earnings on Investments	332
Total Additions	<u>6,987</u>
DEDUCTIONS	
Scholarships Awarded	11,600
Total Deductions	<u>11,600</u>
Change in Net Position	(4,613)
Net Position - Beginning of Year	<u>92,114</u>
Net Position - End of Year	<u>\$ 87,501</u>

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 funds 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. In accordance with Minnesota 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 fund net position at the Fund Financial Statement level.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 expenses that can be specifically identified by function are 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 Financial 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 Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund Financial Statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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, 2017**

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 is as 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 Special Revenue Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Special Revenue Fund are composed of user fees and reimbursements from the federal and state governments. These revenues are restricted for the Food Service Special Revenue Fund.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 Special Revenue 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, K-6 extended day programs, or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, state tax credits, and aid for the state government. These revenues are restricted for the Community Service Special Revenue Fund.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources related to the General Obligation Facilities Maintenance Bonds, Series 2016A and the General Obligation Facilities Maintenance Bonds, Series 2017A issued for the renovations to District buildings and property.

Debt Service Fund – The Debt Service Fund is used to account 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 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 or within one week of the acceptance of the final audit by the School Board 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 to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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.

F. Cash and Investments

Cash and investments consist of cash on hand, demand deposit accounts, time/savings accounts and a United States Treasury Senior Note. 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. Receivables

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 are current property taxes receivable.

H. Inventory

Inventory is recorded using the consumption method of accounting and consist of food and other supplies on hand at June 30, 2017 and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, 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 and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15, and counties generally remit taxes to Districts 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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes (Continued)

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 Debt Service 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."

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 (frozen at \$84,784) for the District. Certain other portions of the District's 2016 Pay 2017 levy, normally revenue for the 2017-2018 fiscal year, are also advance recognized at June 30, 2017, 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, 2017, are included in Property Taxes Levied for Subsequent Year 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 \$5,000 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 and construction in progress.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

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.

K. Long-Term Liabilities

In the Government-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 an expense in the period they are incurred.

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

L. Accrued Employee Benefits

Vacation Pay

Full-time, noncertified 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 Benefits Payable

Severance benefits payable consist 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 benefits for the ensuing year when it anticipates the retirement of personnel eligible for a severance benefit payment. The payment of severance benefits is recorded as a current expenditure in the year of the payment. In 2017, severance payments totaled \$3,100. At June 30, 2017 severance benefits payable totaling \$99,770 is recorded in the financial statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accrued Employee Benefits (Continued)

Other Postemployment Benefits

Under the provisions of various employee and union contracts, the District provides health care benefits if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All amounts are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45.

M. 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.

N. 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, *deferred outflows of resources*, 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 only one type of item, which relates to pensions. Accordingly, the item, *pension related*, is reported in the statement of net position.

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. 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 inflows 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 related to differences in expected and actual economic experience and changes in proportionate share.

P. Unearned Revenue

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 revenues for tax increment receipts, prepaid lunch accounts, and preschool registration fees.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 doesn't 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.

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 General Fund balance of 25% of the annual budgeted expenditures.

R. Risk Management

The District is exposed to various risks of loss related to torts; theft of, 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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

T. 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 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, 2016, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Interfund Transfers

The District had the following interfund transfers for the year ended June 30, 2017:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 9,425
Special Revenue Fund:		
Community Service Fund	9,425	-
Capital Projects Fund	-	40
Debt Service Fund	40	-
	<u>\$ 9,465</u>	<u>\$ 9,465</u>

The purpose of the interfund transfers were to eliminate a deficit fund balance in the Community Service Fund and record bond proceeds in the Debt Service Fund per the Debt Agreements.

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 to it. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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 statement of net position and 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 District 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 financial institutions at June 30, 2017 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government Agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. It is required that the District sign authorizations releasing collateral once it is pledged.

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 banks, 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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- Repurchase or reverse purchase agreements 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.

At June 30, 2017 the District had the following investment:

	Amortized Cost
United States Treasury Senior Note	<u>\$ 180,000</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Moody's and Standard and Poor's. The United States Treasury Senior Note was rated AA+ by Moody's.

Custodial Credit Risk

For investments in securities, custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investment securities that are in the possession of an outside party. As of June 30, 2017, 100% of the District's investments were in a United States Treasury Senior Note and was insured by the federal government.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the District's investment in a single issuer. The District's investment was a United States Treasury Senior Note and made up 100% of the District's investment portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates of investments could adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. The District does not have a formal investment policy that addresses permissible investments, portfolio diversification, and instrument maturities. At June 30, 2017, the District had the following investments and maturities.

Investment Type	Total	Less Than 1 Year
United States Treasury Senior Note	\$ 180,000	\$ 180,000
	<u>\$ 180,000</u>	<u>\$ 180,000</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The deposits and investments are presented in the financial statements as follows:

Deposits	\$ 6,624,634
Cash on Hand	3,756
United States Treasury Senior Note	180,000
Total Cash and Investments	<u>\$ 6,808,390</u>
Cash and Investments - Statement of Net Position	\$ 6,720,889
Cash and Investments - Statement of Fiduciary Fund Net Position	87,501
Total Cash and Investments	<u>\$ 6,808,390</u>

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 459,823	\$ -	\$ -	\$ 459,823
Construction in Progress	-	1,415,852	-	1,415,852
Total Capital Assets, Not Being Depreciated	<u>459,823</u>	<u>1,415,852</u>	<u>-</u>	<u>1,875,675</u>
Capital Assets, Being Depreciated				
Land Improvements	2,151,741	60,969	-	2,212,710
Buildings and Improvements	14,211,832	-	-	14,211,832
Equipment	706,604	35,898	(5,600)	736,902
Total Capital Assets, Being Depreciated	<u>17,070,177</u>	<u>96,867</u>	<u>(5,600)</u>	<u>17,161,444</u>
Accumulated Depreciation for:				
Land Improvements	(1,329,218)	(109,111)	-	(1,438,329)
Buildings and Improvements	(3,841,407)	(285,123)	-	(4,126,530)
Equipment	(503,405)	(40,511)	5,600	(538,316)
Total Accumulated Depreciation	<u>(5,674,030)</u>	<u>(434,745)</u>	<u>5,600</u>	<u>(6,103,175)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,396,147</u>	<u>(337,878)</u>	<u>-</u>	<u>11,058,269</u>
Governmental Activities Capital Assets, Net	<u>\$ 11,855,970</u>	<u>\$ 1,077,974</u>	<u>\$ -</u>	<u>\$ 12,933,944</u>

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

Governmental Activities	
Regular Instruction	\$ 411,799
Instructional Support Services	10,871
Sites and Buildings	6,363
Food Service	5,712
Total Depreciation Expense, Governmental Activities	<u>\$ 434,745</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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
11/18/2015	2.00% - 4.00%	\$ 11,120,000	2/1/2031	\$ 645,000	\$ 10,550,000
9/7/2016	.90% - 2.125%	1,040,000	2/1/2029	-	1,040,000
3/9/2017	1.80% - 3.00%	730,000	2/1/2030	-	730,000
Total General Obligation Bonds				645,000	12,320,000
Bond Premiums				26,401	351,445
Other Postemployment Benefits Payable				-	557,204
Severance Benefits Payable				-	99,770
				<u>\$ 671,401</u>	<u>\$ 13,328,419</u>

B. Minimum Debt Payments

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

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2018	\$ 645,000	\$ 322,366
2019	740,000	304,973
2020	765,000	290,828
2021	795,000	276,448
2022	815,000	261,331
2023-2027	4,500,000	1,039,811
2028-2031	4,060,000	305,844
Total	<u>\$ 12,320,000</u>	<u>\$ 2,801,601</u>

C. Description of Long-Term Debt

General Obligation School Building Refunding Bonds, Series 2015A

On November 18, 2015, the District issued \$11,120,000 of General Obligation School Building Refunding Bonds, Series 2015A at interest rates of 2.00% to 4.00%. These bonds are due in varying annual installments each February 1 through February 1, 2031 with interest due semi-annually on February 1 and August 1.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

General Obligation School Building Refunding Bonds, Series 2015A (Continued)

The proceeds of this issue were used to refund in advance of their stated maturities, the District's General Obligation School Building Refunding Bonds, Series 2006A. The maturities of the General Obligation School Building Refunding Bonds, Series 2006A were scheduled to mature in 2016 through 2031. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

General Obligation Facilities Maintenance Bonds, Series 2016A

On September 7, 2016, the District issued \$1,040,000 of General Obligation Facilities Maintenance Bonds, Series 2016A at interest rates of .90% to 2.125%. These bonds are due in varying annual installments each February 1 through February 1, 2029 with interest due semi-annually on February 1 and August 1.

The proceeds of this issue were used to finance the betterment of school facilities in the District. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

General Obligation Facilities Maintenance Bonds, Series 2017A

On March 9, 2017, the District issued \$730,000 of General Obligation Facilities Maintenance Bonds, Series 2017A at interest rates of 1.80% to 3.00%. These bonds are due in varying annual installments each February 1 through February 1, 2030 with interest due semi-annually on February 1 and August 1.

The proceeds of this issue were used to finance the betterment of school facilities in the District. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

Capital Lease

The District has entered into a capital lease for copiers on May 1, 2012. The interest rate on the lease is 8.00%. The capital assets relating to the lease had a cost of \$22,967 and accumulated depreciation of \$22,967 at June 30, 2017. This capital lease was paid off on May 1, 2017.

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, 2017**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

	June 30, 2016	Additions	Retirements	June 30, 2017
Bonds Payable	\$ 11,120,000	\$ 1,770,000	\$ 570,000	\$ 12,320,000
Bond Premiums	349,441	27,226	25,222	351,445
Capital Lease Payable	4,923	-	4,923	-
Other Postemployment Benefits Payable	500,804	157,002	100,602	557,204
Severance Benefits Payable	99,252	6,242	5,724	99,770
Total	<u>\$ 12,074,420</u>	<u>\$ 1,960,470</u>	<u>\$ 706,471</u>	<u>\$ 13,328,419</u>

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES

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

A. Restricted for Staff Development

In accordance with State Statute, restricted for staff development represents available resources dedicated exclusively for staff development.

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, and roofing. The cumulative excess/deficit of such revenues over expenditures is reported as a restriction of fund balance in the General Fund. As of July 1, 2016, the existing fund balance became a part of Restricted for Long Term Facility Maintenance (LTFM).

C. Restricted for Learning and Development

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

**MEDFORD PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

E. Restricted for Basic Skills Programs

This restricted fund balance represents accumulated resources available through a portion of the District's general education aid for basic skills programs.

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 of equipment, books, and vehicles and to purchase, rent, improve, and repair school facilities as allowed by State Statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

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 Safe Schools Levy

The District levies taxes to be used for the costs as allowed by State Statute for crime prevention, drug abuse, student, and staff safety, and violence prevention measures taken by the District. The cumulative excess of such revenues over expenditures is reported as a restriction of fund balance in the General Fund.

J. Restricted for Long Term Facility Maintenance (LTFM)

This restricted fund balance represents accumulated resources available to be used for LTFM projects in accordance with the District's ten-year plan.

K. Restricted for Medical Assistance

This restricted fund balance represents accumulated resources available to be used for Medical Assistance expenditures.

L. Restricted for Community Education Programs

This restricted fund balance represents accumulated resources available to provide general community education programming.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

M. Restricted for Early Childhood and Family Education Programs

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

N. Restricted for School Readiness

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

O. Restricted for Other Purposes

Represents amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

P. Assigned for Severance

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

Q. 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 benefit payments.

R. 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.

S. 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.

T. 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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The District participates in the following cost sharing multiple employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA) and Teachers Retirement Association (TRA). PERA's and TRA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*. PERA's 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 (General Employees Plan (accounted for in the General Employees Fund))

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 Plan. General Employees Plan 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.

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 City of 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 Minnesota State 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 1.0% increases.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

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.

1. General Employee Plan 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.

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.

**MEDFORD PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

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 if Service Years are up to July 1, 2006	1.2% per Year
	First Ten Years if Service Years are July 1, 2006 or After	1.4% per Year
	All Other Years of Service if Service Years are up to July 1, 2006	1.7% per Year
	All Other Years of Service if Service Years are July 1, 2006 or After	1.9% per Year

With these provisions:

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

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

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier II Benefits (Continued)

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

C. Contributions

1. General Employee Plan Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in fiscal years 2016 and 2017. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in fiscal years 2016 and 2017. The District's contributions to the General Employees Plan for the year ended June 30, 2017, were \$58,226. 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 ended June 30, 2016 and June 30, 2017 were:

	<u>Employee</u>	<u>Employer</u>
Basic	11.0 %	11.5 %
Coordinated	7.5	7.5

The District's contributions to TRA for the year ended June 30, 2017, were \$275,462. The District's contributions were equal to the required contributions for each year as set by State Statute.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employee Plan Pension Costs

At June 30, 2017, the District reported a liability of \$941,862 for its proportionate share of the General Employees Plan's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in fiscal year 2016. The State of Minnesota is considered a nonemployer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District was \$12,247. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was .0116%, which was an increase of .0005% from its proportion measured at June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$122,228 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$3,652 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Plan.

At June 30, 2017, the District reported its proportionate share of the General Employees Plan'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	\$ 2,788	\$ 76,512
Changes in Actuarial Assumptions	203,137	-
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	105,152	-
Changes in Proportion and Differences Between		
District Contributions Made and the District's		
Proportionate Share of Contributions	20,754	8,116
District Contributions Subsequent to the		
Measurement Date	58,226	-
Total	<u>\$ 390,057</u>	<u>\$ 84,628</u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employee Plan Pension Costs (Continued)

\$58,226 reported as deferred outflows related to pensions resulting from District contributions to the General Employees Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

General Employee Plan Pension Costs

<u>Year Ending June 30,</u>	<u>Pension Expense Amounts</u>
2018	\$ 68,408
2019	46,901
2020	97,871
2021	34,023

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$15,814,132 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2016, 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 .0663% at the end of the measurement period and .0670% for the beginning of the period.

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:

<u>Description</u>	<u>Amount</u>
District's Proportionate Share of the TRA Net Pension Liability	\$ 15,814,132
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	1,588,310

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually, while in the previous measurement, the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the District recognized pension expense of \$2,300,661. It also recognized \$221,644 as an increase to pension expense for the support provided by direct aid.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

At June 30, 2017, 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	\$ 154,906	\$ 441
Changes in Actuarial Assumptions	9,017,820	-
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	684,130	-
Changes in Proportion and Differences Between		
District Contributions Made and the District's		
Proportionate Share of Contributions	35,936	131,631
District Contributions Subsequent to the		
Measurement Date	275,462	-
Total	<u>\$ 10,168,254</u>	<u>\$ 132,072</u>

\$275,462 reported as deferred outflows related to pensions resulting from the District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

TRA Pension Costs

<u>Year Ending June 30,</u>	<u>Pension Expense Amounts</u>
2018	\$ 1,925,607
2019	1,925,607
2020	2,151,594
2021	2,011,005
2022	1,746,907

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Aggregate Pension Costs

At June 30, 2017, the District reported the following aggregate amounts related to pensions for all plans to which it participates.

	PERA	TRA	Total
Net Pension Liability	\$ 941,862	\$ 15,814,132	\$ 16,755,994
Deferred Outflows of Resources	390,057	10,168,254	10,558,311
Deferred Inflows of Resources	84,628	132,072	216,700
Pension Expense	125,880	2,522,305	2,648,185

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	General Employees Plan	TRA
Inflation	2.50% per Year	2.75%
Active Member Payroll Growth	3.25% per Year	3.50%, Based on Years of Service
Investment Rate of Return	7.50%	8.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015 and a limited scope experience study dated June 5, 2015 for TRA.

The following changes in actuarial assumptions for the General Employees Plan occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1% per year through 2035 and 2.5% per year thereafter to 1% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by .25% to 3.25% for payroll growth and 2.5% for inflation.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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	0.50%
Totals	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total General Employees Plan pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the total TRA pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8% was used and it was not necessary to calculate the SEIR.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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>General Employees Plan Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the General Employee Plan Net Pension Liability	\$ 1,337,724	\$ 941,862	\$ 615,780
<u>TRA Discount Rate</u>	3.66%	4.66%	5.66%
District's Proportionate Share of the TRA Net Pension Liability	\$ 20,372,555	\$ 15,814,132	\$ 12,101,445

H. Pension Plan Fiduciary Net Position

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

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, Suite 400, St. Paul, Minnesota, 55103-4000; or by calling (651-296-2409 or 800-652-3669).

NOTE 8 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, 2017, 2016, and 2015 are \$44,216, \$35,067, and \$38,927, respectively. The related employee contributions were \$78,234, \$64,751, and \$57,343, for the years ended June 30, 2017, 2016, and 2015, respectively.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan (the Plan) that provides health insurance and subsidized benefits to eligible employees and their spouses through the District's health insurance plan. There are 71 active participants and 2 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District's employees and are renegotiated at various times. The Plan does not issue a publicly available financial report.

B. Funding Policy

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 2017, the District contributed \$72,203 to the plan.

C. 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), an 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 unfunded 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	\$ 136,970
Interest on Net OPEB Obligation	20,032
Adjustment to Annual Required Contribution	<u>(28,399)</u>
Annual OPEB Cost	128,603
Contributions Made	<u>(72,203)</u>
Increase in Net OPEB Obligation	56,400
Net OPEB Obligation - Beginning	500,804
Net OPEB Obligation - Ending	<u><u>\$ 557,204</u></u>

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 128,603	56.1%	\$ 557,204
6/30/2016	129,757	46.7%	500,804
6/30/2015	112,949	40.7%	431,686

D. 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.

E. 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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

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, 2017 did not exceed thirty years.

NOTE 10 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.

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.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 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 \$66,614 for the year ended June 30, 2017.

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

	2017	2016
Unpaid Claims, Beginning of Year	\$ 2,398	\$ 5,451
Incurred Claims	66,614	63,624
Claim Payments (Cash Basis)	(62,175)	(66,677)
Unpaid Claims, End of Year	<u>\$ 6,837</u>	<u>\$ 2,398</u>

NOTE 12 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.

NOTE 13 JOINTLY GOVERNED ORGANIZATION

The Cannon Valley Special Education Cooperative No. 52-6094 was established through a partnership with Faribault Public Schools, Medford Public Schools, Northfield Public Schools, and Owatonna Public Schools. The primary objective of the District is to provide, by a cooperative effort, comprehensive educational programs and other related services as can be effectively operated by its four member districts. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources. The jointly governed organization's financial statements are audited and available for inspection.

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, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Fund 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
LAST THREE FISCAL YEARS**

Fiscal Year	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement Date	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
General Employees Plan			
District's Proportion of the Net Pension Liability	0.0116%	0.0111%	0.0114%
District's Proportionate Share of the Net Pension Liability	\$ 941,862	\$ 575,260	\$ 535,637
State's Proportionate Share of the Net Pension Liability Associated with the District	12,247	-	-
Total	<u>\$ 954,109</u>	<u>\$ 575,260</u>	<u>\$ 535,637</u>
District's Covered Payroll	\$ 716,820	\$ 649,353	\$ 599,378
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	131.39%	88.59%	89.37%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.20%	78.70%
TRA			
District's Proportion of the Net Pension Liability	0.0663%	0.0670%	0.0719%
District's Proportionate Share of the Net Pension Liability	\$ 15,814,132	\$ 4,144,613	\$ 3,311,797
State's Proportionate Share of the Net Pension Liability Associated with the District	1,588,310	508,253	233,199
Total	<u>\$ 17,402,442</u>	<u>\$ 4,652,866</u>	<u>\$ 3,544,996</u>
District's Covered Payroll	\$ 3,446,413	\$ 3,463,899	\$ 3,282,443
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	458.86%	134.32%	100.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	44.88%	76.80%	81.50%

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST FOUR FISCAL YEARS**

General Employees Plan	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 58,226	\$ 53,762	\$ 48,050	\$ 43,455
Contributions in Relation to the Contractually Required Contribution	(58,226)	(53,762)	(48,050)	(43,455)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 776,349	\$ 716,820	\$ 649,353	\$ 599,378
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.40%	7.25%

TRA	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 275,462	\$ 259,943	\$ 257,813	\$ 231,598
Contributions in Relation to the Contractually Required Contribution	(275,462)	(259,943)	(257,813)	(231,598)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 3,673,297	\$ 3,463,899	\$ 3,437,508	\$ 3,279,709
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.06%

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

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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 (the District), as of and for the year ended June 30, 2017, 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 30, 2017.

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 opinion 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 that we consider to be material weaknesses.

Compliance and Other Matters

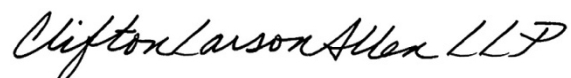
As part of obtaining reasonable assurance about whether Independent School District No. 763's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have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

Independent School District No. 763's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Independent School District No. 763's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
October 30, 2017

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, 2017, and the related notes to the financial statements and have issued our report thereon dated October 30, 2017.

The Minnesota Legal Compliance Audit Guide for School Districts promulgated by the State Auditor pursuant to Minn. Stat. §6.65, 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 School Districts, except as described in the Schedule of Findings and Responses as item 2017-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 763's noncompliance with the above-referenced provisions.

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

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



CliftonLarsonAllen LLP

Austin, Minnesota
October 30, 2017

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
SUMMARY OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

Finding: 2017-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

- Condition:** The District does not have an internal control policy in place over annual financial reporting that would enable management to ensure its annual financial statements and related footnote disclosures are complete and presented in accordance with accounting principles generally accepted in the United States of America (GAAP).
- Criteria:** Management is responsible for establishing and maintaining internal controls and the fair presentation of the financial statements including the related disclosures in conformity GAAP.
- Context:** The District engages CliftonLarsonAllen LLP to assist in preparing the financial statements and accompanying disclosures. Management has reviewed and approved the financial statements prior to issuance.
- Effect:** The potential exists that a material misstatement of the annual financial statements could occur and not be prevented, or detected and corrected, by the District's internal controls.
- Cause:** The District's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the District's financial statements and related disclosures and to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.
- Recommendation:** Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting 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 receives a draft of the financial statements as prepared by the auditing firm. She reviews all pages and compares all data to reports pulled from the SmartFinance system to verify the accuracy of any financial information reported. This involves comparison of revenue, expenditures, and all balance sheet data. Accordingly, the District will rely upon the auditors for completeness of the disclosures. However, the Business Associate will review the notes for accuracy, compare the balances to UFARS and other District reports, and discuss any discrepancies with the audit firm with satisfactory resolution for both parties prior to authorizing final drafting of the financial statements.

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:

The planned completion date is October 30, 2017.

Plan to Monitor Completion of CAP:

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
SUMMARY OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

Finding: 2017-002 MATERIAL AUDIT ADJUSTMENTS

- Condition:** The District made journal entries to adjust accounts to year-end balances. However, the audit firm identified certain misstatements and proposed journal entries to correct them. Management reviewed the journal entries and posted them to its general ledger.
- Criteria:** The District should have controls in place to prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.
- Context:** The District has informed us that they will continue to work with the audit firm to identify year-end adjustments, which are necessary to adjust accounts in accordance with GAAP.
- Effect:** The potential exists that a material misstatement could be present in the financial statements and not be prevented, or detected and corrected, by the District's internal controls.
- Cause:** The District's controls were not adequate to ensure that all accounts were adjusted to their appropriate year-end balances in accordance with GAAP.
- Recommendation:** We recommend the District continue to work with the auditors to identify year-end journal entries that are necessary to ensure that accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

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 will review current year adjusting entries proposed by auditors and attempt to eliminate any misstatements to the general ledger. She will also attend year-end meetings and workshops in an effort to anticipate and record all necessary postings.

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:

The planned completion date is June 30, 2018.

Plan to Monitor Completion of CAP:

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
SUMMARY OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

Finding: 2017-003 MINNESOTA LEGAL COMPLIANCE – COLLATERAL COVERAGE

Condition: Minnesota State Statute 118A.003 requires the District to have deposits in excess of FDIC or FSLIC insurance protected by a bond or collateral of which market value should be at least 10% more than the excess deposits. The District did not have adequate collateral for its deposits as of December 31, 2016.

Recommendation: We recommend the District carefully monitor collateral coverage levels in the future.

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 implement a policy to monitor bank balances and collateral coverage.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is October 30, 2017.

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
JUNE 30, 2017

	AUDIT	UFARS	DIFFERENCE		AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 8,910,194	\$ 8,910,181	\$ 13	Total Revenue	\$ 2,245	\$ 2,245	\$ -
Total Expenditures	8,121,893	8,121,880	13	Total Expenditures	1,695,686	1,695,686	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	1	1	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	(4,339)	(4,339)	-	413 Projects Funded by COP	-	-	-
407 Capital Project Levy	-	-	-	467 LTFM	103,745	103,745	-
408 Cooperative Programs	-	-	-	<i>Restricted:</i>			
413 Projects Funded by COP	-	-	-	464 Restricted Fund Balance	-	-	-
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned Fund Balance	-	-	-
417 Taconite Building Maintenance	-	-	-				
424 Operating Capital	55,534	55,534	-	07 DEBT SERVICE			
426 \$25 Taconite	-	-	-	Total Revenue	901,994	901,995	(1)
427 Disabled Accessibility	2,940	2,941	(1)	Total Expenditures	927,152	927,152	-
428 Learning and Development	1	1	-	<i>Nonspendable:</i>			
434 Area Learning Center	-	-	-	460 Nonspendable Fund Balance	-	-	-
435 Contracted Alternative Programs	-	-	-	<i>Restricted/Reserved:</i>			
436 State Approved Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
438 Gifted and Talented	36,057	36,057	-	451 QZAB and QSCB Payments	-	-	-
440 Teacher Development and Evaluations	-	-	-	<i>Restricted:</i>			
441 Basic Skills Programs	2	2	-	464 Restricted Fund Balance	194,300	194,300	-
445 Career and Technical Programs	-	-	-	<i>Unassigned:</i>			
448 Achievement and Integration	-	-	-	463 Unassigned Fund Balance	-	-	-
449 Sage Schools Crime Levy	(1)	(1)	-				
450 Pre-Kindergarten	-	-	-	08 TRUST			
451 QZAB Payments	-	-	-	Total Revenue	6,987	6,986	1
452 OPEB Liability Not Held in Trust	-	-	-	Total Expenditures	11,600	11,600	-
453 Unfunded Severance & Retirement Levy	-	-	-	<i>Net Position:</i>			
467 LTFM	28,979	28,979	-	422 Net Position	87,501	87,501	-
472 Medical Assistance	4,302	4,302	-				
<i>Restricted:</i>				20 INTERNAL SERVICE			
464 Restricted Fund Balance	-	-	-	Total Revenue	-	-	-
<i>Committed:</i>				Total Expenditures	-	-	-
418 Committed for Separation	-	-	-	<i>Net Position:</i>			
461 Committed Fund Balance	-	-	-	422 Net Position	-	-	-
<i>Assigned:</i>							
462 Assigned Fund Balance	599,252	599,252	-	25 OPEB REVOCABLE TRUST			
<i>Unassigned:</i>				Total Revenue	-	-	-
422 Unassigned Fund Balance	3,467,851	3,467,851	-	Total Expenditures	-	-	-
				<i>Net Position:</i>			
				422 Net Position	-	-	-
02 FOOD SERVICE							
Total Revenue	524,754	524,753	1	45 OPEB IRREVOCABLE TRUST			
Total Expenditures	494,686	494,686	-	Total Revenue	-	-	-
<i>Nonspendable:</i>				Total Expenditures	-	-	-
460 Nonspendable Fund Balance	2,795	2,795	-	<i>Net Position:</i>			
<i>Restricted/Reserved:</i>				422 Net Position	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-				
<i>Restricted:</i>				47 OPEB DEBT SERVICE			
464 Restricted Fund Balance	156,803	156,802	1	Total Revenue	-	-	-
<i>Unassigned:</i>				Total Expenditures	-	-	-
463 Unassigned Fund Balance	-	-	-	<i>Nonspendable:</i>			
				460 Nonspendable Fund Balance	-	-	-
04 COMMUNITY SERVICE				<i>Restricted:</i>			
Total Revenue	194,411	194,409	2	425 Bond Refunding	-	-	-
Total Expenditures	203,474	203,471	3	464 Restricted Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable Fund Balance	-	-	-	463 Unassigned Fund Balance	-	-	-
<i>Restricted/Reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	32,242	32,242	-				
432 E.C.F.E.	67,577	67,577	-				
440 Teacher Development and Evaluations	-	-	-				
444 School Readiness	3,519	3,519	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liability Not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

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 and for the year ended June 30, 2017, 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 modified 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 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 2017, 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, 2017, 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 30, 2017

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2017**

Funds	Balance June 30, 2016	Receipts and Transfers	Disbursements and Transfers	Balance June 30, 2017
M Club	\$ 2,898	\$ 8,377	\$ 7,330	\$ 3,945
Art Club	63	790	607	246
Band	4,839	1,401	1,941	4,299
Bank	8	88	59	37
Tiger's Den	54	-	1	53
Elementary St. Council	1,713	440	824	1,329
FFA	7,612	38,113	30,083	15,642
Middle School Team	493	-	1	492
Music Activity	1,552	8,253	8,905	900
NHS	1,760	1,469	1,467	1,762
SADD	1,959	832	1,252	1,539
Student Council	8,542	49,105	38,816	18,831
Trapshooting Team	4,535	6,898	6,019	5,414
	<u>\$ 36,028</u>	<u>\$ 115,766</u>	<u>\$ 97,305</u>	<u>\$ 54,489</u>
Total	<u>\$ 36,028</u>	<u>\$ 115,766</u>	<u>\$ 97,305</u>	<u>\$ 54,489</u>

See Note to Student Activity Funds Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
NOTE TO STUDENT ACTIVITY FUNDS FINANCIAL STATEMENTS
JUNE 30, 2017**

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 Funds 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, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2017, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated October 30, 2017. 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*. 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 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 30, 2017

