PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 30, 2017

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

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

New Issue **Rating Applications Made:S&P Global Ratings**

INDEPENDENT SCHOOL DISTRICT NO. 821 (MENAHGA), MINNESOTA

(Wadena, Becker, Hubbard, and Otter Tail Counties)

(Minnesota School District Credit Enhancement Program)

$8,335,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2017B

PROPOSAL OPENING: December 11, 2017, 10:30 A.M., C.T. **CONSIDERATION**: December 11, 2017, 5:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $8,335,000 General Obligation School Building Bonds, Series 2017B (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475, and a special election held November 7, 2017 by Independent School District No. 821 (Menahga), Minnesota (the "District") for the purpose of financing the acquisition and betterment of school sites and facilities in the District. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota.

DATE OF BONDS: December 28, 2017

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2023	$385,000	2029	$495,000	2035	$590,000
2024	415,000	2030	510,000	2036	610,000
2025	440,000	2031	525,000	2037	630,000
2026	455,000	2032	540,000	2038	655,000
2027	470,000	2033	560,000		
2028	480,000	2034	575,000		

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

TERM BONDS: See "Term Bond Option" herein.

INTEREST: August 1, 2018 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing February 1, 2028 and thereafter are subject to call for prior redemption on February 1, 2027 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: $8,251,650.

GOOD FAITH DEPOSIT: A cashier's check in the amount of $166,700 may be submitted contemporaneously with the proposal or, alternatively, a good faith deposit shall be made by the winning bidder by wire transfer of funds.

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

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

REPRESENTATIONS

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

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

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

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

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

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

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

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

CLOSING CERTIFICATES

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

TABLE OF CONTENTS

BOARD OF EDUCATION

		Term Expires
Andrea Haverinen	Chairperson	January 2019
Durwin Tomperi	Vice Chairperson	January 2019
Bradley Goehrig	Clerk	January 2021
Jon Kangas	Treasurer	January 2021
Julia Kicker	Director	January 2021
Katie Howard	Director	January 2019

ADMINISTRATION

Kevin Wellen, Superintendent of Schools

Elizabeth Olson, Business Manager

PROFESSIONAL SERVICES

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

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota
(*Other offices located in Waukesha, Wisconsin, Chicago, Illinois and Denver, Colorado*)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 821 (Menahga), Minnesota (the "District") and the issuance of its $8,335,000* General Obligation School Building Bonds, Series 2017B (the "Bonds") or the "Obligations". Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution awarding the sale of the Bonds (the "Award Resolution") to be adopted by the Board of Education on December 11, 2017.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the District's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of $5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of December 28, 2017. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2018, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2023 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

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

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

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 and on any date thereafter, at a price of par plus accrued interest.

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

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

AUTHORITY; PURPOSE

The Bonds are being issued by the District pursuant to Minnesota Statutes, Chapter 475, and a special election held November 7, 2017, at which voters approved a building program by a vote of 710- 503. Proceeds of the Bonds will be used to provide funds for the acquisition and betterment of school sites and facilities.

ESTIMATED SOURCES AND USES

Sources			
	Par Amount of Bonds	$8,335,000	
	Estimated Premium	184,224	
	Total Sources		**$8,519,224**
Uses			
	Project Costs	$8,380,759	
	Estimated Discount	83,350	
	Finance Related Expenses	55,115	
	Total Uses		**$8,519,224**

SECURITY

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

RATING

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

The District currently has an "A" underlying rating from S&P and will be requesting an underlying rating on this issue. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgement of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the District nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on November 13, 2017 (the "Resolution"), the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation (herein referred to as the "State Payment Law" or the "Law"). The provisions of the State Payment Law shall be binding on the District as long as any obligations of the issue remain outstanding.

Under the State Payment Law, if the District believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Commissioner of Education as soon as possible, but not less than 15 working days prior to the due date (which notice is to specify certain information) that it intends to exercise the provisions of the Law to guarantee payment of the principal and interest when due. The District also covenants in the Resolution to deposit with the Paying Agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of the payment.

The Law also requires the Paying Agent for this issue to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal and interest on these obligations, or if, on the day two business days prior to the payment date, there are insufficient funds to make the payment or deposit with the Paying Agent.

The Law also requires, after receipt of a notice which requests a payment pursuant to the Law, after consultation with the Paying Agent and District, and after verifying the accuracy of the information provided, the Commissioner of Education shall notify the Commissioner of Management and Budget of the potential default. The State Payment Law provides that "upon receipt of this notice . . . the Commissioner of Management and Budget shall issue a warrant and authorize the Commissioner of Education to pay to the Paying Agent for the debt obligation the specified amount on or before the date due. The amounts needed for purposes of subdivision are annually appropriated to the Department of Education from the state general fund."

The Law requires that all amounts paid by the State on behalf of any School District are required to be repaid by the District to the State with interest, either via a reduction in State aid payable to the District, or through the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education.

In its Official Statement dated September 27, 2017, for General Obligation State Bonds, Series 2017A, 2017B, 2017C, 2017D, and 2017E, the State of Minnesota disclosed the following information about the State Credit Enhancement Program for School Districts.

> "As the date of this Official Statement, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2046, is approximately $12.5 billion. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of the date of this Official Statement is $1.9 billion, with the maximum amount of principal and interest payable in any one month being $760 million. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.
>
> The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts."

CONTINUING DISCLOSURE

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

In the previous five years, the District believes it has not failed to comply in all material respects with its prior undertakings under the Rule. In the interest of full disclosure, the District notes the following: Prior continuing disclosure undertakings entered into by the District included language stating that the District's audited financial statements would be filed "when available." Although the District did not always comply with this requirement, the audited financial statements were timely filed within the required twelve (12) month timeframe as provided for in each undertaking. The District has reviewed its continuing disclosure responsibilities to help ensure compliance in the future.

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

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

LEGAL OPINION

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

TAX EXEMPTION AND RELATED CONSIDERATIONS

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

Interest on the Bonds is not an item of tax preference includible in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includible in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax and the environmental tax imposed by Section 59A of the Code. Interest on the Bonds may be includible in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includible in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of the interest on the Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers or Bondholders should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income. Except as stated in its opinion, no opinion will be expressed by Bond Counsel regarding other state or federal tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a Municipal Advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

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

INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 2017 have been audited byEideBailly, Fargo, North Dakota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

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

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the District, the taxable value of property within the District, and the ability of the District to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the District and to the Bonds. The District can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the District or the taxing authority of the District.

State Equalization Aids: A portion of the District's debt service is expected to be paid from state aids based upon an equalized debt service formula (the "Formula"). The Formula and District statistics are subject to modification and the dollar appropriation is made by the State Legislature.

Ratings; Interest Rates: In the future, the District's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

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

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

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

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

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

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

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

VALUATIONS

OVERVIEW

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

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

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

Type of Property	2014/15	2015/16	2016/17
Residential homestead[1]	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%
Agricultural homestead[1]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $1,900,000 - 0.50% [2] Over $1,900,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,140,000 - 0.50% [2] Over $2,140,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,050,000 - 0.50% [2] Over $2,050,000 - 1.00% [2]
Agricultural non-homestead	Land - 1.00% [2]	Land - 1.00% [2]	Land - 1.00% [2]
Seasonal recreational residential	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]
Residential non-homestead:	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $100,000 - .75% Over $100,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $106,000 - .75% Over $106,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $115,000 - .75% Over $115,000 - .25%
Industrial/Commercial/Utility[5]	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%

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[1] A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

[2] Applies to land and buildings. Exempt from referendum market value tax.

[3] Exempt from referendum market value tax.

[4] Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

[5] The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2016/17 Economic Market Value $377,270,781[1]

2016/17 Assessor's Estimated Market Value

	Wadena County	Becker County	Hubbard County	Otter Tail County	Total
Real Estate	$211,635,000	$118,124,900	$ 18,803,500	$ 5,623,500	$354,186,900
Personal Property	10,946,900	1,355,500	3,235,700	0	15,538,100
Total Valuation	$222,581,900	$119,480,400	$ 22,039,200	$ 5,623,500	$369,725,000

2016/17 Net Tax Capacity

	Wadena County	Becker County	Hubbard County	Otter Tail County	Total
Real Estate	$ 1,862,336	$ 864,755	$ 182,449	$ 42,363	$ 2,951,903
Personal Property	218,440	22,601	63,964	0	305,005
Net Tax Capacity	$ 2,080,776	$ 887,356	$ 246,413	$ 42,363	$ 3,256,908
Less: Captured Tax Increment Tax Capacity[2]	(10,227)	0	0	0	(10,227)
Power Line Adjustment[3]	(130)	0	(263)	0	(393)
Taxable Net Tax Capacity	$ 2,070,419	$ 887,356	$ 246,150	$ 42,363	$ 3,246,288

1 According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 821 (Menahga) is about 96.73% of the actual selling prices of property most recently sold in the District. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the District of $ 377,270,781.

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

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

2016/17 NET TAX CAPACITY BY CLASSIFICATION

	2016/17 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$ 840,638	25.81%
Agricultural	1,278,080	39.24%
Commercial/industrial	170,326	5.23%
Public utility	28,988	0.89%
Railroad operating property	0	0.00%
Non-homestead residential	259,180	7.96%
Commercial & residential seasonal/rec.	374,691	11.50%
Personal property	305,005	9.36%
Total	$ 3,256,908	100.00%

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Taxable Net Tax Capacity[2]	Percent +/- in Estimated Market Value
2012/13	$ 356,100,200	$ 314,670,300	$ 2,995,935	$ 2,994,058	6.05%
2013/14	359,910,900	319,432,200	3,076,561	3,074,520	1.07%
2014/15	361,721,200	328,658,500	3,157,257	3,146,810	0.50%
2015/16	371,865,400	339,567,117	3,259,191	3,252,621	2.80%
2016/17	369,725,000	336,329,563	3,256,908	3,246,288	-0.58%

[1] Net Tax Capacity includes tax increment values and power line values.

[2] Taxable Net Tax Capacity does not include tax increment values and power line values.

LARGER TAXPAYERS

Taxpayer	Type of Property	2016/17 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Minnesota Pipeline Company	Utility	$260,842	8.01%
RD Offut Company	Commercial/Ag	80,284	2.47%
Potlatch Minnesota Timberlands LLC	Rural	35,794	1.10%
Winnemucca Farms Inc.	Agricultural	35,166	1.08%
Individuals	Rural	30,697	0.94%
Allete, Inc.	Commercial	26,753	0.82%
Individual	Residential	27,352	0.84%
Xcel Energy	Utility	14,584	0.45%
Individual	Residential	13,121	0.40%
Individual	Residential	10,845	0.33%
Total		$535,438	16.44%

District's Total 2016/17 Net Tax Capacity $3,256,908

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Wadena, Hubbard and Becker Counties.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedule following)

Total g.o. debt being paid from taxes and state aids[2] (includes the Bonds)*	$ 10,425,000

Lease Purchase Obligations (see schedule following)[3]

Total lease purchase obligations paid by annual appropriations[4]	$1,800,083

*Preliminary, subject to change.

STATE AID FOR DEBT SERVICE

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

Under the Debt Service Equalization Formula (the Formula) adopted by the 2001 Minnesota State Legislature, each school district is responsible for the amount of its qualifying annual debt service which is equal to 15.74% of its Adjusted Net Tax Capacity (ANTC). The Formula is applied against the remaining qualifying annual debt service which, in the case of the Menahga School District, is expected to result in a "local share" of about 67.85% of the amount in excess of 15.74% of ANTC, but less than 26.24% of ANTC, and a “local share” of about 37.54% of the amount in excess of 26.24% of ANTC. This results in estimated total State participation of about 24.93% of total annual debt service. The Bonds of this Issue will **not** qualify for equalization until FY2023.

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

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

2 Based upon the long term facilities maintenance revenue formula and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

3 Computers and copiers have not been included, however, information related to these leases can be reviewed in the audit.

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

General Obligation Debt Being Paid From Taxes
(As of 12/28/17)
FISCAL YEAR BASIS

	Alternative Facilities Series 2008A		Capital Facilities Series 2008B		Refunding 1) Series 2012A		Refunding 2) Series 2017A		Building Bonds Series 2017B							
Dated Amount	11/12/08 $1,955,000		11/12/08 $315,000		12/12/12 $1,420,000		11/8/17 $1,665,000		12/28/17 $8,335,000*							
Maturity	2/01		2/01		2/01		2/01		2/01							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2018	300,000	85,925	35,000	3,413	50,000	400	0	0			385,000	89,738	474,738	10,040,000	3.69%	**2018**
2019			40,000	1,820			395,000	40,978	0	283,260	435,000	326,058	761,058	9,605,000	7.87%	**2019**
2020							420,000	25,400	0	259,475	420,000	284,875	704,875	9,185,000	11.89%	**2020**
2021							425,000	17,000	0	259,475	425,000	276,475	701,475	8,760,000	15.97%	**2021**
2022							425,000	8,500	0	259,475	425,000	267,975	692,975	8,335,000	20.05%	**2022**
2023									385,000	259,475	385,000	259,475	644,475	7,950,000	23.74%	**2023**
2024									415,000	247,925	415,000	247,925	662,925	7,535,000	27.72%	**2024**
2025									440,000	235,475	440,000	235,475	675,475	7,095,000	31.94%	**2025**
2026									455,000	222,275	455,000	222,275	677,275	6,640,000	36.31%	**2026**
2027									470,000	208,625	470,000	208,625	678,625	6,170,000	40.82%	**2027**
2028									480,000	194,525	480,000	194,525	674,525	5,690,000	45.42%	**2028**
2029									495,000	180,125	495,000	180,125	675,125	5,195,000	50.17%	**2029**
2030									510,000	165,275	510,000	165,275	675,275	4,685,000	55.06%	**2030**
2031									525,000	149,975	525,000	149,975	674,975	4,160,000	60.10%	**2031**
2032									540,000	134,225	540,000	134,225	674,225	3,620,000	65.28%	**2032**
2033									560,000	118,025	560,000	118,025	678,025	3,060,000	70.65%	**2033**
2034									575,000	101,225	575,000	101,225	676,225	2,485,000	76.16%	**2034**
2035									590,000	83,975	590,000	83,975	673,975	1,895,000	81.82%	**2035**
2036									610,000	64,800	610,000	64,800	674,800	1,285,000	87.67%	**2036**
2037									630,000	44,975	630,000	44,975	674,975	655,000	93.72%	**2037**
2038									655,000	22,925	655,000	22,925	677,925	0	100.00%	**2038**
	300,000	85,925	75,000	5,233	50,000	400	1,665,000	91,878	8,335,000	3,495,510	10,425,000	3,678,945	14,103,945			

*Preliminary, subject to change.

1) This issue current refunded the 2014 through 2018 maturities of the District's $3,745,000 General Obligation School Building Refunding Bonds, Series 2002, dated November 14, 2002.

2) This issue will refund the 2019 through 2022 maturities of the District's $1,955,000 General Obligation Alternative Facilities Bonds, Series 2008A, dated November 12, 2008. The refunded maturities will be called for prior redemption on February 1, 2018, and have not been included in the calculation of debt ratios.

INDEPENDENT SCHOOL DISTRICT NO. 821 (MENAGHA)
Schedule of Bonded Indebtedness
Non-General Obligation Lease Payable from Annual Appropriations
(As of 12/28/17)
FISCAL YEAR BASIS

	Lease Refinance & Addition		Lease Construction							
Dated	12/28/10		11/20/12							
Amount	$1,000,000		$1,500,000							
Maturity	2/01 & 8/01 Final Maturity 2/01		5/1 & 11/1 Final Maturity 11/1							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2018	62,321	33,597	92,564	30,150	154,885	63,746	218,631	1,645,198	8.60%	**2018**
2019	65,470	30,448	95,146	27,568	160,615	58,016	218,631	1,484,582	17.53%	**2019**
2020	68,777	27,140	97,799	24,914	166,577	52,054	218,631	1,318,006	26.78%	**2020**
2021	72,252	23,666	100,527	22,186	172,779	45,852	218,631	1,145,226	36.38%	**2021**
2022	75,903	20,015	103,331	19,382	179,234	39,398	218,631	965,992	46.34%	**2022**
2023	79,737	16,180	106,213	16,500	185,951	32,681	218,631	780,042	56.67%	**2023**
2024	83,766	12,152	109,176	13,538	192,942	25,690	218,631	587,100	67.38%	**2024**
2025	87,998	7,920	112,221	10,493	200,219	18,412	218,631	386,881	78.51%	**2025**
2026	92,444	3,474	115,351	7,363	207,795	10,837	218,631	179,087	90.05%	**2026**
2027			118,568	4,145	118,568	4,145	122,713	60,519	96.64%	**2027**
2028			60,519	838	60,519	838	61,357	0	100.00%	**2028**
	688,668	174,592	1,111,415	272,936	1,800,083	447,528	2,247,610			

BONDED DEBT LIMIT (includes the Bonds)*

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

2016/17 Economic Market Value	$ 377,270,781
Multiply by 15%	0.15
Statutory Debt Limit	$ 56,590,617
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes	(10,425,000)
Less: Long-Term Debt Outstanding Being Paid Solely from Annual Appropriations	(1,800,083)
Unused Debt Limit*	$ 46,165,617

*Preliminary, subject to change.

OVERLAPPING DEBT[1]

Taxing District	2016/17 Taxable Net Tax Capacity	% In District	Total G.O. Debt[2]	District's Proportionate Share
Wadena County	$ 9,487,879	21.8217%	$ 955,000	$ 208,397
Becker County	50,063,584	1.7725%	13,330,000	236,274
Otter Tail County	90,560,094	0.0468%	13,925,000	6,517
Hubbard County	34,124,985	0.7213%	7,435,000	53,629
City of Menahga	2,070,419	100.0000%	3,265,000	3,265,000
District's Share of Total Overlapping Debt				$ 3,769,817

DEBT PAYMENT HISTORY

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

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

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

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value ($377,270,781)	Debt/ Current Population Estimate (3,777)
Direct G.O. Debt Being Paid From Taxes	$10,425,000	2.76%	$2,760.13
District's Share of Total Overlapping Debt	$ 3,769,817	1.00%	$998.10
Total*	$14,194,817	3.76%	$3,758.23

*Preliminary, subject to change.

FUTURE FINANCING

The District plans to issue bonds for its remaining voter-approved school building bond authority of approximately $5,665,000 in early 2018.

LEVY LIMITS

Minnesota school district tax levies for most purposes are subject to statutory limitations. No limit, however, is placed on the debt service levy, and districts are required to levy 105% of actual principal and interest requirements to allow for delinquencies.

School districts receive a basic revenue amount per pupil unit from aid and levy proceeds in a variety of categorical state aids. They are also allowed to certify additional levies within limits for certain specified purposes. The State Department of Education and the applicable County Auditors review the levies of each school district to determine compliance with state levy limits.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date[2]	% Collected
2012/13	$ 844,103	$ 818,182	$ 839,788	99.49%
2013/14	934,694	910,035	928,697	99.36%
2014/15	998,126	974,018	989,917	99.18%
2015/16	1,093,047	1,063,256	1,072,827	98.15%
2016/17	1,092,713	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.[3] Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

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

2 Collections are through December 31, 2016 for Wadena County, May 31, 2017 for Becker County and Hubbard County, and June 30, 2017 for Otter Tail County.

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

TAX CAPACITY RATES[1]

	2012/13	2013/14	2014/15	2015/16	2016/17
I.S.D. No. 821 (Menahga)	26.641%	26.980%	22.736%	24.766%	24.890%
Wadena County	95.839%	90.136%	89.668%	88.185%	90.637%
Becker County	42.825%	41.966%	40.311%	38.668%	39.863%
Hubbard County	36.151%	37.561%	39.084%	40.065%	40.795%
Otter Tail County	41.660%	41.895%	41.517%	42.129%	41.858%
City of Menahga	81.736%	94.433%	89.461%	80.787%	83.066%
Town of Blueberry[2]	17.980%	16.534%	16.406%	16.500%	16.138%
Otter Tail County HRA	0.623%	0.606%	0.634%	0.624%	0.674%
Hubbard County HRA	0.700%	0.707%	0.701%	0.687%	0.674%
Hubbard Watershed	0.337%	0.340%	0.340%	0.338%	0.336%
Referendum Market Value Rates:					
I.S.D. No. 821 (Menahga)	0.04406%	0.07707%	0.17845%	0.17491%	0.17348%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Wadena County.

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

2 Representative town rate.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 156, including 78 non-licensed employees and 78 licensed employees (74 of whom are teachers). The District provides education for 1,003 students in grades kindergarten through twelve.

PENSIONS; UNIONS

Teachers' Retirement Association (TRA)

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

Public Employees' Retirement Association (PERA)

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

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
Education Minnesota Menahga	June 30, 2017
Education Minnesota Menahga- Paraprofessionals	June 30, 2017

Status of Contracts

The contracts which expired June 30, 2017 are currently in negotiations.

POST EMPLOYMENT BENEFITS

The District has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 45 (GASB 45). The study shows a total accrued liability of $509,327 as of July 1, 2015. The District has been funding these obligations on a pay-as-you-go basis.

STUDENT BODY

The number of students enrolled for the past four years and for the current year have been as follows:

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2013/14	97	496	350	943
2014/15	84	510	368	962
2015/16	86	506	391	983
2016/17	76	504	423	1,003
2017/18	79	496	438	1,013

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2018/19	79	499	464	1,042
2019/20	78	490	489	1,057
2020/21	78	490	491	1,059

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Menahga Elementary/Secondary	1922	1950, 1959, 1974, 1987, 1993, 1996, 2005, 2011

FUNDS ON HAND (as of August 31, 2017)

Fund	Total Cash and Investments
General	$ 4,566,072
Food Service	71,276
Community Service	32,983
Debt Service	195,639
Trust & Agency	46,351
Internal Service	78,494
Total Funds on Hand	$ 4,990,815

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the District or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

Currently there is no statutory authority for Minnesota school districts to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code.

Nevertheless, there can be no assurance (a) that State law will not change in the future while the Bonds are outstanding; or (b) even absent such a change in State law, that an executive order or other executive action could not effectively authorize the District to file for relief under Chapter 9; or (c) whether it would still be eligible for voluntary or involuntary relief under Chapters of the Bankruptcy Code other than Chapter 9 or under similar federal or state law or equitable proceeding regarding insolvency or providing for protection from creditors. Such action could impact the rights of holders of the Bonds. Such modifications could be adverse to holders of the Bonds and there could ultimately be no assurance that holders of the Bonds would be paid in full or in part on the Bonds.

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the District's General Fund. These summaries are not purported to be the complete audited financial statements of the District, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the District. Copies of the complete statements are available upon request. Appendix A includes the District's 2017 audited financial statements.

	FISCAL YEAR ENDING JUNE 30				
COMBINED STATEMENT	**2014 Audited**	**2015 Audited**	**2016 Audited**	**2017 Audited**	**2017-18 Revised Budget**[1]
Revenues					
Local property taxes	$ 324,639	$ 437,405	$ 515,724	$ 654,342	$ 627,855
Other local and county revenues	441,867	400,328	387,341	414,827	183,912
Revenues from state sources	7,444,948	8,378,072	9,179,360	9,469,627	10,173,147
Revenues from federal sources	254,178	241,568	218,942	219,899	217,262
Sales and other conversion of assets	6,836	4,073	6,510	3,565	3,510
Total Revenues	$ 8,472,468	$ 9,461,446	$10,307,877	$ 10,762,260	$ 11,205,686
Expenditures					
Administration	$ 537,534	$ 582,456	$ 706,230	$ 751,609	$ 786,919
District support services	291,193	292,432	305,458	355,653	378,612
Elementary & secondary regular instruction	4,208,437	4,461,062	4,695,720	5,175,080	5,055,994
Vocational education instruction	124,120	139,713	177,923	169,038	182,624
Special education instruction	1,023,805	1,216,330	1,302,906	1,412,183	1,576,051
Instructional support services	189,625	202,058	246,154	258,209	263,620
Pupil support services	1,052,051	927,448	1,024,746	1,243,054	1,260,555
Sites and buildings	1,541,794	1,120,205	1,082,068	1,418,832	1,429,459
Fiscal and other fixed cost programs	0	0	0	0	0
Total Expenditures	$ 8,968,559	$ 8,941,704	$ 9,541,205	$ 10,783,658	$ 10,933,834
Excess of revenues over (under) expenditures	$ (496,091)	$ 519,742	$ 766,672	$ (21,398)	$ 271,852
Other Financing Sources (Uses)					
Proceeds from Sale of Equipment	$ 3,372	$ 1,376	$ 0	$ 0	
Total Other Financing Sources (Uses)	$ 3,372	$ 1,376	$ 0	$ 0	
Net Change in Fund Balances	$ (492,719)	$ 521,118	$ 766,672	$ (21,398)	
General Fund Balance July 1	$ 3,410,342	$ 2,917,623	$ 3,438,741	4,205,413	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance June 30	$ 2,917,623	$ 3,438,741	$ 4,205,413	$ 4,184,015	
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	$ 30,751	$ 25,148	$ 14,063	20,566	
Restricted	244,951	431,133	180,009	0	
Committed	408,500	708,500	1,308,500	1,308,500	
Unassigned	2,233,421	2,273,960	2,702,841	2,854,949	
Total	$ 2,917,623	$ 3,438,741	$ 4,205,413	$ 4,184,015	

[1] The 2017-18 budget was revised on June 29, 2017.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 3,617 and a current population estimate of 3,777, and comprising an area of 135,000 acres, is located approximately 170 miles northwest of the Minneapolis-St. Paul metropolitan area. For additional information regarding the District.

LARGER EMPLOYERS[1]

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
I.S.D. No. 821 (Menahga)	Elementary and secondary education	156
Greenwood Connections	Nursing and retirement community	110
Blueberry Pines Golf Club	Golf course & country club	60
Vercon Inc./JP Structures Inc	General contractors/construction	55
Pathways Bible Camp	Campgrounds	50
Renneberg Hardwoods	Building material & lumber dealer/retailer	40
Menahga Concrete Products Inc	Masonry contractors	32
Omega Hardwoods	Wood container and pallet manufacturing	20
City of Menahga	Municipal government and services	17
First National Bank	Full-service bank/financial institution	16

Source: *ReferenceUSA, written and telephone survey (September, 2017), and the Minnesota Department of Employment and Economic Development.*

[1] This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

U.S. CENSUS DATA

Population Trend: Independent School District No. 821 (Menahga), Minnesota

2000 U.S. Census population		3,392
2010 U.S. Census population		3,617
2015 Population Estimate		3,777
Percent of Change 2000 - 2010	+	6.63%

Income and Age Statistics

	Menahga School District	**Wadena County**	**State of Minnesota**	**United States**
2015 per capita income	$20,130	$22,002	$32,157	$28,930
2015 median household income	$42,161	$41,906	$61,492	$53,889
2015 median family income	$56,600	$52,324	$77,055	$66,011
2015 median gross rent	$557	$569	$848	$928
2015 median value owner occupied units	$128,900	$114,300	$186,200	$178,600
2015 median age	40.3 yrs.	43.3 yrs.	37.7 yrs.	37.6 yrs.

	State of Minnesota	**United States**
District % of 2015 per capita income	62.60%	69.58%
District % of 2015 median family income	73.45%	85.74%

Source: *2000 and 2010 Census of Population and Housing, and 2015 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).*

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

	Average Employment	**Average Unemployment**	
Year	**Wadena County**	**Wadena County**	**State of Minnesota**
2013	5,729	7.0%	4.9%
2014	5,737	6.2%	4.2%
2015	5,908	6.0%	3.7%
2016	5,871	6.0%	3.8%
2017, October	5,890	3.0%	2.4%

Source: *Minnesota Department of Employment and Economic Development.*

APPENDIX A

FINANCIAL STATEMENTS

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

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

Financial Statements
June 30, 2017

Independent School District No. 821
Menahga Area Public Schools

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The School Board of
Independent School District No. 821
Menahga Area Public Schools
Menahga, 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. 821, Menahga, Minnesota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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, and schedule of employer's share of net pension liability and schedule of employer's 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 or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The school board and administration, combining and individual fund schedules, and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual fund schedules, uniform accounting and reporting standards compliance table, and schedule of changes in student activity cash balances are the responsibility of management and were derived from and relate 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, information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The school board and administration has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 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.

Eide Bailly LLP

Fargo, North Dakota
October 26, 2017

This section of Independent School District No. 821, Menahga Area Public Schools' 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

General Fund 01 – The overall revenues were approximately $10.8 million while the overall expenditures were approximately $10.8 million decreasing fund balance by about $21,000.

Food Service Fund 02 – The overall revenues were approximately $489,000 while the overall expenditures were approximately $460,000 increasing fund balance by about $29,000.

Community Service Fund 04 – The overall revenues were approximately $151,000 while the overall expenditures were approximately $133,000 increasing fund balance by about $18,000.

Debt Service Fund 07 – The overall revenues were approximately $477,000 while the overall expenditures were approximately $476,000 increasing fund balance by about $1,000.

Note 1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Overview of the Financial Statements

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 they have changed. Net position – the difference between the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way to measure the District's financial health or position.

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

Independent School District No. 821
Menahga Area Public Schools
Management's Discussion and Analysis
June 30, 2017

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

Governmental activities – All 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 three kinds of funds:

Governmental Funds – All of the District's basic services are included in governmental funds, which generally focus on:

1. how cash and other financial assets that can readily be converted to cash flow in and out and
2. the balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them

Internal Service Funds – This is an accounting device used to accumulate and allocate costs of the District's self-insured dental insurance function. Because this service predominantly benefits the governmental function, they have been included within governmental activities in the government-wide financial statements.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was approximately $4,059,000 as of June 30, 2017.

Statement of Net Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets	$ 6,621,000	$ 6,530,000
Capital assets	11,364,000	11,206,000
Total assets	17,985,000	17,736,000
Deferred Outflows of Resources	11,156,000	1,718,000
Liabilities		
Other liabilities	1,049,000	996,000
Long-term liabilities	22,650,000	10,741,000
Total liabilities	23,699,000	11,737,000
Deferred Inflows of Resources	1,383,000	2,123,000
Net Position		
Net investment in capital assets	7,092,000	6,354,000
Restricted for specific purposes	308,000	421,000
Unrestricted	(3,341,000)	(1,181,000)
Total net position	$ 4,059,000	$ 5,594,000

Independent School District No. 821
Menahga Area Public Schools
Management's Discussion and Analysis
June 30, 2017

Statement of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Revenues		
Program revenues		
Charges for service	$ 262,000	$ 263,000
Operating grants and contributions	1,486,000	1,448,000
General		
Property taxes	1,048,000	990,000
Aids and payments from state and other	8,774,000	8,377,000
Unrestricted investment earnings	40,000	10,000
Miscellaneous revenues	157,000	140,000
Total revenues	11,767,000	11,228,000
Expenses		
District and school administration	752,000	699,000
District support services	356,000	305,000
Regular instruction	4,869,000	4,371,000
Vocational instruction	169,000	178,000
Exceptional instruction	1,523,000	1,411,000
Community education and services	133,000	123,000
Instructional support services	2,503,000	320,000
Pupil support services	1,703,000	1,469,000
Site, buildings and equipment	1,142,000	1,015,000
Fiscal and other fixed-cost programs	149,000	96,000
Health self-insurance	3,000	77,000
Total expenses	13,302,000	10,064,000
Change in Net Position	(1,535,000)	1,164,000
Net Position - Beginning	5,594,000	4,430,000
Net Position - End	$ 4,059,000	$ 5,594,000

Changes in Net Position

The District's total revenues were approximately $11.8 million for the year ended June 30, 2017. Property taxes and state formula aid accounted for 83% of total revenue for the year. Another 17% came from other program revenues.

The total cost of all programs and services was approximately $13.3 million. The District's expense are predominately related to educating and caring for students. The purely administrative activities of the District account for 6% of total costs.

The total expenditures surpassed revenues, reducing net position by approximately $1,535,000 for the fiscal year ended June 30, 2017.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-k/Early Childhood Special Education through grade 12 including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30, 2017	Year Ended June 30, 2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local property taxes	$ 654,000	$ 516,000	$ 138,000	26.7%
Other local sources	415,000	387,000	28,000	7.2%
State sources	9,470,000	9,179,000	291,000	3.2%
Federal sources	220,000	219,000	1,000	0.5%
	4,000	7,000	(3,000)	-42.9%
Total General Fund revenues	$ 10,763,000	$ 10,308,000	$ 455,000	4.4%

Total General Fund revenues increased by $455,000 or 4.4% from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue. The increase in property taxes resulted from increased long term facilities maintenance levies collected during the fiscal year, replacing the previously levied deferred maintenance levy. The majority of the increase in state sources was driven by a required entry under GASB Statement No. 68 whereby the District had to record revenue from the State of Minnesota for special funding situations related to TRA and PERA in the amount of $228,924.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2017	Year Ended June 30, 2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries and benefits	$ 7,142,000	$ 6,461,000	$ 681,000	10.5%
Purchased services	1,398,000	1,319,000	79,000	6.0%
Supplies and materials	722,000	592,000	130,000	22.0%
Capital expenditures	1,250,000	1,097,000	153,000	13.9%
Other expenditures	271,000	72,000	199,000	276.4%
Total General Fund expenditures	$ 10,783,000	$ 9,541,000	$ 1,242,000	13.0%

Total General Fund expenditures increased by $1,242,000 or 13% from the previous year. The increase in overall expenditures resulted from payroll increases and capital expenditures during 2017. The District hired new teachers to support increased student populations, along with sustaining annual salary increases, resulted in the increased salaries and benefits. The District also continued remodeling projects, as well as budgeted technology acquisitions which resulted in the budgeted increases in capital and other expenditures. The overall increase in other expenditures was driven by a required entry under GASB statement No. 68 whereby the District had to record the State of Minnesota's expenditures for the special funding situations related to TRA and PERA in the amount of $228,924.

General Fund Budgetary Highlights

The District's final general fund results when compared to the revised budget are:

- Actual revenues were approximately $268,000 greater than budget.
- The actual expenditures were approximately $286,000 greater than budget.
- Both exceeded budgets in relation to the required entry under GASB statement No. 68 whereby the District had to record the State of Minnesota's expenditures (and related revenues) for the special funding situations related to TRA and PERA in the amount of $228,924.

Other Non-Major Funds

The Food Service Fund incurred revenues in excess of expenditures of approximately $29,000. The Community Service Fund incurred revenues in excess of expenditures of approximately $18,000.

Capital Assets and Debt Administration

By the end of 2017, the District had a carrying value of $11,364,000 invested in a broad range of capital assets, including school buildings, athletic facilities, computers, and audio-visual equipment. Total accumulated depreciation as of June 30, 2017 was $7,900,000. See Note 4 for more details.

Capital Assets Governmental Activities
June 30, 2017 and 2016

	2017	2016
Land	$ 4,000	$ 4,000
Construction in progress	-	56,000
Improvements	183,000	183,000
Buildings	15,000,000	14,770,000
Equipment	4,077,000	3,709,000
Accumulated depreciation	(7,900,000)	(7,516,000)
Total capital assets	$ 11,364,000	$ 11,206,000

Long-Term Liabilities

At year-end, the District had $4,812,792 in long-term liabilities consisting of bonded indebtedness of $2,080,000, capital leases of $2,191,478, severance of $46,759, compensated absences of $17,823, and other post-employment benefits health benefits of $476,732. See Notes 5 and 6 for more details.

The District also had a net pension liability of $17,836,901 at year end as disclosed in accordance with GASB Statement No. 68. See Note 8 for more details.

Factors Bearing on the District Future

Future enrollment projections at the District are an ongoing and evolving process. Enrollment projections for future fiscal years continue to be trending upward and it is anticipated to continue for the foreseeable future.

Contacting the District Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact Elizabeth Olson, Business Manager, at the District offices at 216 Aspen Ave SE, Menahga, MN 56464.

Independent School District No. 821
Menahga Area Public Schools
Statement of Net Position
June 30, 2017

Assets	
Cash and investments	$ 4,928,649
Receivables	
Current property taxes	514,909
Delinquent property taxes	34,982
Accounts	26,336
Due from other governmental units	1,091,829
Inventories	24,034
	6,620,739
Capital assets	
Land	4,000
Improvements	182,396
Buildings	14,999,632
Equipment	4,077,426
Less accumulated depreciation	(7,899,606)
Net capital assets	11,363,848
Total assets	17,984,587
Deferred Outflows of Resources	
Pension plans	11,155,874
Liabilities	
Accounts payable	32,616
Due to other governmental units	151,629
Salaries and benefits payable	789,274
Accrued interest payable	64,149
Unearned revenue	8,583
Claims incurred but not reported	2,569
Long-term liabilities	
Due within one year - bonds, capital leases, and severance	604,839
Due in more than one year - bonds, capital leases, severance, compensated absences, and other post-employment benefits	4,207,953
Due in more than one year - net pension liability	17,836,901
Total liabilities	23,698,513
Deferred Inflows of Resources	
Unavailable revenue - property taxes	1,105,748
Pension plans	276,890
Total deferred inflows of resources	1,382,638
Net Position	
Net investment in capital assets	7,092,370
Restricted for specific purposes	307,855
Unrestricted	(3,340,915)
Total net position	$ 4,059,310

The Notes to Financial Statements are an integral part of this statement.

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Changes in Net Position
Governmental activities				
Administration	$ 751,609	$ -	$ -	$ (751,609)
District support services	355,653	-	-	(355,653)
Regular instruction	4,868,949	65,216	213,198	(4,590,535)
Vocational educational instruction	169,096	-	-	(169,096)
Special education instruction	1,523,007	-	828,056	(694,951)
Community education and services	133,375	11,709	77,267	(44,399)
Instructional support services	2,503,445	-	-	(2,503,445)
Pupil support services	1,703,435	118,033	367,655	(1,217,747)
Sites and buildings	1,142,028	1,125	-	(1,140,903)
Fiscal and other fixed-cost programs	148,793	-	-	(148,793)
Dental self-insurance	2,569	66,110	-	63,541
Total governmental activities	$ 13,301,959	$ 262,193	$ 1,486,176	$ (11,553,590)
General Revenues				
Property taxes, levied for general purposes				605,428
Property taxes, levied for community education and services				40,521
Property taxes, levied for debt service				402,110
Aids and payments from the state				8,736,458
Federal aids and payments				18,343
County apportionment				19,311
Unrestricted investment earnings				39,582
Miscellaneous revenues				157,459
Total general revenues				10,019,212
Change in Net Position				(1,534,378)
Net Position - Beginning				5,593,688
Net Position - Ending				$ 4,059,310

The Notes to Financial Statements are an integral part of this statement.

Independent School District No. 821
Menahga Area Public Schools
Governmental Funds
Balance Sheet
June 30, 2017

	General	Debt Service	Other Governmental Funds	Totals
Assets				
Cash and investments	$ 4,476,982	$ 236,586	$ 133,995	$ 4,847,563
Receivables				
Current property taxes	383,654	112,555	18,700	514,909
Delinquent property taxes	20,827	12,855	1,300	34,982
Accounts	11,795	656	13,885	26,336
Due from other governmental units	1,079,928	4,037	7,864	1,091,829
Inventories	20,566	-	3,468	24,034
Total assets	$ 5,993,752	$ 366,689	$ 179,212	$ 6,539,653
Liabilities				
Accounts payable	$ 28,145	$ -	$ 4,471	$ 32,616
Due to other governmental units	151,629	-	-	151,629
Salaries and benefits payable	788,686	-	588	789,274
Unearned revenue	-	-	8,583	8,583
Total liabilities	968,460	-	13,642	982,102
Deferred Inflows of Resources				
Unavailable revenue-property taxes	841,277	257,507	41,946	1,140,730
Fund Balance				
Nonspendable	20,566	-	3,468	24,034
Restricted	-	109,182	120,156	229,338
Committed	1,308,500	-	-	1,308,500
Unassigned	2,854,949	-	-	2,854,949
Total fund balance	4,184,015	109,182	123,624	4,416,821
Total liabilities, deferred inflows of resources, and fund balances	$ 5,993,752	$ 366,689	$ 179,212	$ 6,539,653

The Notes to Financial Statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

Total Fund Balances - Governmental Funds	$ 4,416,821
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,363,848
Accrued interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(64,149)
Delinquent property taxes are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	34,982
Internal service funds are used by the District to charge the costs of the self-insured dental insurance pool. The assets and liabilities of the internal servive fund are included in governmental activities in the statement of net position.	78,517
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	10,878,984
Long-term liabilities, including severance, bonds payable, net pension liability, capital lease payable, compensated absences, and other post employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.	(22,649,693)
Total Net Position - Governmental Activities	$ 4,059,310

The Notes to Financial Statements are an integral part of this statement.

	General	Debt Service	Other Governmental Funds	Totals
Revenues				
Local property tax levies	$ 654,342	$ 402,155	$ 40,486	$ 1,096,983
Other local and county sources	414,827	2,168	22,144	439,139
State sources	9,469,627	72,422	130,959	9,673,008
Federal sources	219,899	-	328,574	548,473
Sales and other conversions of assets	3,565	-	118,521	122,086
Total revenues	10,762,260	476,745	640,684	11,879,689
Expenditures				
Administration	751,609	-	-	751,609
District support services	355,653	-	-	355,653
Regular instruction	5,175,080	-	-	5,175,080
Vocational education instruction	169,038	-	-	169,038
Special education instruction	1,412,183	-	-	1,412,183
Community education and service	-	-	133,375	133,375
Instructional support services	258,209	-	-	258,209
Pupil support services	1,243,054	-	460,304	1,703,358
Sites and buildings	1,418,832	-	-	1,418,832
Fiscal and other fixed cost programs	-	475,640	-	475,640
Total expenditures	10,783,658	475,640	593,679	11,852,977
Net Change in Fund Balance	(21,398)	1,105	47,005	26,712
Fund Balance, Beginning of Year	4,205,413	108,077	76,619	4,390,109
Fund Balance, End of Year	$ 4,184,015	$ 109,182	$ 123,624	$ 4,416,821

The Notes to Financial Statements are an integral part of this statement.

Net Change in Fund Balances - Total Governmental Funds	$ 26,712
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	158,163
In the statement of activities severance and post-employment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	(62,652)
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid).	(349)
Internal service funds are used by the District to charge the costs of the self-insured dental insurance pool. The change in net position of the internal service fund is reported in governmental activities.	16,971
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.	(1,880)
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	(2,245,137)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principle of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	573,794
Change in Net Position of Governmental Activities	$ (1,534,378)

The Notes to Financial Statements are an integral part of this statement.

	Original and Final Budget	Actual	Variance With Final Budget
Revenues			
Local property tax levies	$ 630,400	$ 654,342	$ 23,942
Other local and county sources	216,390	414,827	198,437
State sources	9,425,389	9,469,627	44,238
Federal sources	218,066	219,899	1,833
Sales and other conversions of assets	3,510	3,565	55
Total revenues	10,493,755	10,762,260	268,505
Expenditures			
Administration	763,000	751,609	11,391
District support services	364,423	355,653	8,770
Regular instruction	4,775,612	5,175,080	(399,468)
Vocational education instruction	172,462	169,038	3,424
Special education instruction	1,489,284	1,412,183	77,101
Instructional support services	253,478	258,209	(4,731)
Pupil support services	1,242,861	1,243,054	(193)
Sites and buildings	1,436,143	1,418,832	17,311
Total expenditures	10,497,263	10,783,658	(286,395)
Net Change in Fund Balance	$ (3,508)	(21,398)	$ (17,890)
Fund Balance, Beginning of Year		4,205,413	
Fund Balance, End of Year		$ 4,184,015	

The Notes to Financial Statements are an integral part of this statement.

Statement of Net Position
Internal Service Fund
June 30, 2017

Assets		
Cash and investments	$	81,086
Liabilities		
Claims incurred but not reported		2,569
Net Position		
Unrestricted	$	78,517

The Notes to Financial Statements are an integral part of this statement.

Statement of Changes in Net Position
Internal Service Fund
Year Ended June 30, 2017

Revenues		
Dental revenue	$	65,646
Interest income		464
Total revenues		66,110
Expenses		
Dental claims		49,139
Change in Net Position		16,971
Net Position, Beginning of Year		61,546
Net Position, End of Year	$	78,517

The Notes to Financial Statements are an integral part of this statement.

Statement of Cash Flows
Internal Service Fund
Year Ended June 30, 2017

Operating Activities		
Receipts from participants	$	65,646
Payments for insurance claims and administration		(54,606)
Net cash from operating activities		11,040
Investing Activity		
Interest income		464
Net Change in Cash and Investments		11,504
Cash and Investments, July 1		69,582
Cash and Investments, June 30	$	81,086

Reconciliation of Operating Gain to Net Cash from Operating Activities		
Operating gain	$	16,507
Adjustments to reconcile operating gain to net cash from operating activities		
Changes in assets and liabilities		
Claims incurred but not reported		(5,467)
Net cash from operating activities	$	11,040

The Notes to Financial Statements are an integral part of this statement.

Independent School District No. 821
Menahga Area Public Schools
Fiduciary Fund
Statement of Net Position
June 30, 2017

	Private-Purpose Trust
Assets	
Cash and investments	$ 46,269
Net Position	
Unrestricted	$ 46,269

The Notes to Financial Statements are an integral part of this statement.

	Private-Purpose Trust
Additions	
Interest	$ 341
Net Position, Beginning of Year	45,928
Net Position, End of Year	$ 46,269

The Notes to Financial Statements are an integral part of this statement.

Note 1 - Summary of Significant Accounting Policies

A. Organization

Independent School District No. 821, Menahga Public School, Menahga, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

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

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

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

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

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level. Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

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

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

D. Fund Financial Statement Presentation

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. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, private-purpose trust, and agency. 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 government-wide statements.

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

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. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

Internal service funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing delivering goods in connection with a internal service fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is receipt from participants in the self-insured dental plan. Operating expenses for the internal service fund includes payments for insurance claims and administration. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education. Each fund is accounted for as an independent entity. A description of the funds 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, and health and safety projects.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for, and payment of, general obligation bond principal, interest, and related costs.

Nonmajor Governmental Funds

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

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

Internal Service Fund

The Internal Service Fund is used to account for the activities of the District's self-insured dental plan.

Fiduciary Fund

Private-Purpose Trust Fund – The private-purpose trust fund is used to administer resources received and held by the District as the trustee for others. The private-purpose trust fund is used for scholarships.

E. Other Significant Accounting Policies

Budgeting

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

Cash and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

The District considers certificates of deposit with an original maturity of three months or more to be investments.

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

Receivables

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

Inventories

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

Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. The remaining portion of the taxes collectible in 2017 is recorded as deferred inflows of resources (property taxes levied for subsequent year).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county general remits taxes to the District at periodic intervals as they are collected. A portion of the property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

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

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Capital assets not being depreciated include land and construction in progress.

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds using the straight-line method.

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

Vacation – Certified staff and certain administrative staff do receive paid vacation. They are only paid for the number of days they are required to work, each in accordance with their respective contracts. Non Certified Staff and other administrative employees are granted paid vacation leave in varying amounts. As of June 30, 2017, this amount was reported as a liability.

Severance Pay – Contract groups receive severance benefits as follows:

Business Manager – For retirees with 15 years of service the District will pay 40% of unused sick leave times the daily rate of pay at the time of retirement in one lump sum. Unused sick leave accrues at 14 days per year up to a maximum of 150 days.

Paraprofessionals – For retirees reaching age 55 with 15 years of service, the District will pay 30% of unused sick leave times $13 per hour, directly into the employee's School District qualifying 403(b) employee account. Unused sick leave accrues at 1 day per month up to a maximum of 100 days.

Non Licensed Employees – Full Time Employees - For retirees reaching age 55 with 15 years of continuous, full-time service, the District will pay 30% of unused sick leave times the daily rate of pay at the time of retirement in one lump sum. Unused sick leave accrues at 1 day per month up to a maximum of 120 days.

The total amount of severance pay was actuarially determined on the valuation date of July 1, 2015.

Post-Employment Benefits – All employees are allowed access to group insurance upon retirement. Under the terms of collectively bargained employment contracts, the District is required to pay insurance premiums until the maximum Lifetime School District Matching Contribution amount is exhausted. This maximum is $20,000 less Accumulated District Contributions made to the Matching Program prior to retirement. All premiums are funded on-a-pay-as-you-go basis. This amount was determined by an actuary at June 30, 2017.

Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for their merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 8.

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.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position 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 of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net position liability not included in pension expense reported in the government-wide statement of net position.

Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2017.

Net Position

Net position represent the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows in the District's government-wide and fiduciary fund financial statements. Net invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Independent School District No. 821
Menahga Area Public Schools
Notes to Financial Statements
June 30, 2017

Fund Balance

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

- Nonspendable fund balance amounts are comprised of funds that cannot be a portion that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.

- Restricted fund balances amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the School Board and the remain binding unless removed the they school board by subsequent formal actions. The formal action to commit a fund balance must occur prior to fiscal year end; however specific amounts actually committed can be determined in the subsequent fiscal year. A committed fund balance cannot be a negative number. A majority vote of the school board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board.

- Assigned fund balance amounts are comprised of unrestricted fund constrained by the government's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the school district's intended us of those resources. The action to assign fund balance may be taken after the end of the fiscal year. An assigned fund balance cannot be a negative number. The school board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The board also delegates the power to assign fund balances to the following: Superintendent and/or Business Manager. Assignments so made shall be reported to the school board on a monthly basis, either separately or as a part of ongoing reporting by the assigning party if other than that school board. An appropriation of an existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.

- Unassigned fund balance represents residual amounts in the general fund not reported in any other classification. Unassigned amounts in the general fund are technically available for expenditure for any purpose. The general fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restrict, and committed fund balances exceed the total net resources of that fund.

The District will strive to maintain a minimum unassigned general fund balance of three months of operating expenditures. The first priority is to utilize the balance as unassigned fund balance. Assigned funds will be considered second, committed fund balance third, and restricted fund balance fourth when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used like assigned or unassigned.

Note 2 - Deposits And Investments

Deposits

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

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

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

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

At June 30, 2017, all deposits were insured or collateralized by securities held by the District's agent in the District's name.

Investments

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The District had no such investments during the year or at year end.

The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

Independent School District No. 821
Menahga Area Public Schools
Notes to Financial Statements
June 30, 2017

The following table represents the District's deposit and investment balances at June 30, 2017:

MSDLAF - Cash management funds	$ 4,761,751
Deposits	213,167
	$ 4,974,918

Cash and investments are included on the basic financial statements as follows:

Cash and Investments - Statement of Net Position	$ 4,928,649
Cash and Investments - Statement of Fiduciary Net Position	46,269
	$ 4,974,918

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pools shares.

Note 3 - Due from Other Governmental Units

Amounts receivable from other governments as of June 30, 2017, include:

Fund	Federal	State	Other	Total
Major funds				
General	$ 140,288	$ 900,512	$ 39,128	$ 1,079,928
Debt service	-	4,037	-	4,037
Non-major funds	165	7,699	-	7,864
	$ 140,453	$ 912,248	$ 39,128	$ 1,091,829

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2017 is a follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated:				
Land	$ 4,000	$ -	$ -	$ 4,000
Construction in progress	55,945	-	(55,945)	-
Total capital assets not being depreciated	59,945	-	(55,945)	4,000
Capital assets being depreciated:				
Improvements	182,396	-	-	182,396
Buildings	14,770,134	229,498	-	14,999,632
Equipment	3,709,108	468,721	(100,403)	4,077,426
Total capital assets being depreciated	18,661,638	698,219	(100,403)	19,259,454
Less accumulated depreciation for:				
Improvements	199,531	17,323	-	216,854
Buildings	4,769,346	301,981	-	5,071,327
Equipment	2,547,021	164,807	(100,403)	2,611,425
Total accumulated depreciation	7,515,898	484,111	(100,403)	7,899,606
Net capital assets, depreciated	11,145,740	214,108	-	11,359,848
Total capital assets, net	$ 11,205,685	$ 214,108	$ (55,945)	$ 11,363,848

Depreciation expense for the year ended June 30, 2017 was charged to the following functions/programs:

Food Services	$ 7,575
Regular instruction	77
Instructional support services	99
Special education instruction	363,973
Pupil support services	110,889
Sites and buildings	1,498
Total depreciation expense	$ 484,111

Note 5 - Other Post-Employment Benefits

Plan Description – All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees who have reached age 55 with at least 3 years of service. The implicit rate subsidy is only until Medicare eligibility. The retiree health plan does not issue a publicly available financial report. Teachers who have reached age 55 with at least 3 years of service and were hired before March 23, 1987 are allowed subsidized post-employment benefits. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. The District pays insurance premiums until the maximum Lifetime School District Matching Contribution amount is exhausted. This maximum is $20,000 less Accumulated District Contributions made to the Matching Program prior to retirement.

Funding Policy – The District has elected to fund the plan on a pay-as-you-go method.

Annual OPEB Cost and Net OPEB Obligation – The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (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 (or funding excess) over a period of thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual Required Contribution	$ 95,090
Interest on OPEB Obligation	14,685
Adjustment to Required Contribution	(22,424)
Annual OPEB Cost	87,351
Contributions Made	(30,189)
Decrease in OPEB Obligation	57,162
Net OPEB Obligation, Beginning of Year	419,570
Net OPEB Obligation, End of Year	$ 476,732

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

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
06/30/17	$ 87,351	35%	$ 476,732
06/30/16	88,422	34%	419,570
06/30/15	81,227	67%	361,537

Funded Status and Funding Progress – As of July 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $509,327, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $509,327. The covered payroll (annual payroll of active employees covered by the plan) was $4,599,763 and the ratio of the UAAL to the covered payroll was 11.1 percent.

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 the healthcare cost trend. 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 trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 the 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 include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.25 percent initially, reduced by decrements to an ultimate rate of 5 percent after nine years. Both rates included an inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

Note 6 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2017 are as follows:

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Bonds payable	$ 2,460,000	$ -	$ 380,000	$ 2,080,000	$ 385,000
Capital leases payable	2,391,855	-	200,377	2,191,478	208,149
Severance payable	41,269	5,490	-	46,759	11,690
Compensated absences payable	17,474	349	-	17,823	-
Other post-employment benefits	419,570	87,351	30,189	476,732	-
	$ 5,330,168	$ 93,190	$ 610,566	$ 4,812,792	$ 604,839

Independent School District No. 821
Menahga Area Public Schools
Notes to Financial Statements
June 30, 2017

Bonds Payable – Following is a summary of bonds payable as of June 30, 2017:

Bond Description	Final	Interest Rate	Original	Outstanding
General Obligation School Alternative Facilities Bonds 2008A	2/22	4.25% - 4.50%	$ 1,955,000	$ 1,955,000
General Obligation School Capital Facilities Bonds 2008B	2/19	3.90% - 4.55%	315,000	75,000
General Obligation School Refunding Bonds of 2012A	2/18	0.40% - 0.80%	1,420,000	50,000
				$ 2,080,000

Bond principal and interest payments are made by the Debt Service Fund.

Capital Leases Payable – The District has a capital lease with Capital One. The District entered into a capital lease for the construction of the Classroom Addition. The lease requires semi-annual payments of $61,357 including interest which is 2.77%. Payments began in May of 2013 and will go through November of 2027. The obligation is secured by the leased property.

The District has a capital lease agreement with Wells Fargo. The capital lease agreement with Wells Fargo included additional funds for financing a locker room addition and multi-purpose room remodel. Repayment including interest at 4.99% consists of 30 semi-annual payments of $47,959, ending February 1, 2026. Payments are made from the General Fund.

The District has a capital lease agreement with PNC. Repayment including interest at 4.35% consists of 180 monthly payments of $5,770, ending January 2024. Payments are made from the General Fund.

The cost and accumulated depreciation of the capital leased assets in Note 4 as of June 30, 2017 are as follows:

Building	$ 4,009,588
Less: Accumulated depreciation	(384,934)
	$ 3,624,654

Severance Payable – This amount consists of sick leave benefits as discussed in Note 1 to the financial statement. Payments are made from the General Fund.

Compensated Absences Payable – This amount consists of vacation payable as discussed in Note 1 to the financial statement. Payments are made from the General Fund.

Other Post-Employment Benefit – This amount consists of other post-employment benefits as discussed in Note 5 to the financial statements. Payments are made from the General Fund.

Remaining principal and interest payments on bonds payable and capital lease payable are as follows:

Years Ending June 30,	Bonds Payable Principal	Bonds Payable Interest	Capital Lease Payable Principal	Capital Lease Payable Interest	Total Principal	Total Interest
2018	$ 385,000	$ 89,738	$ 208,149	$ 71,624	$ 593,149	$ 161,362
2019	410,000	74,995	216,243	71,624	626,243	146,619
2020	455,000	56,895	224,674	63,174	679,674	120,069
2021	475,000	36,875	233,454	54,413	708,454	91,288
2022	355,000	15,975	242,601	125,541	597,601	141,516
2023 - 2027	-	-	887,267	91,112	887,267	91,112
2028	-	-	179,090	4,981	179,090	4,981
	$ 2,080,000	$ 274,478	$ 2,191,478	$ 482,469	$ 4,271,478	$ 756,947

Note 7 - Fund Balance

Certain portions of fund balances and net position 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.

At June 30, 2017, the District has recorded the following fund balances for the following purposes:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Fund balances				
Nonspendable				
Inventories	$ 20,566	$ -	$ 3,468	$ 24,034
Restricted				
Debt service	-	109,182	-	109,182
Food service	-	-	88,195	88,195
Community education	-	-	6,167	6,167
E.C.F.E.	-	-	5,050	5,050
School readiness	-	-	20,246	20,246
Community service	-	-	498	498
Total restricted	-	109,182	120,156	229,338
Committed				
Severance	8,500	-	-	8,500
Building project	1,300,000	-	-	1,300,000
Total committed	1,308,500	-	-	1,308,500
Unassigned	2,854,949	-	-	2,854,949
Total fund balance	$ 4,184,015	$ 109,182	$ 123,624	$ 4,416,821

The UFARS fund balance reporting standards are slightly different than the reporting standards under GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balances reporting under GASB 54 and UFARS reporting standards:

	GASB Balance	Reconciling Transfers	UFARS Balance
Fund balances			
Nonspendable			
Inventories	$ 24,034	$ -	$ 24,034
Restricted			
Health and safety	-	(9,432)	(9,432)
Debt service	109,182	-	109,182
Food service	88,195	-	88,195
Community education	6,167	-	6,167
E.C.F.E.	5,050	-	5,050
School readiness	20,246	-	20,246
Community service	498	-	498
Total restricted	229,338	(9,432)	219,906
Committed			
Severance	8,500	-	8,500
Building project	1,300,000	-	1,300,000
Total committed	1,308,500	-	1,308,500
Unassigned	2,854,949	9,432	2,864,381
Total fund balance	$ 4,416,821	$ -	$ 4,416,821

Note 8 - Defined Benefit Pension Plans - Statewide

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Public Employees' Retirement Association (PERA) or the Teachers' Retirement Association (TRA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

Public Employees Retirement Association (PERA)

A. Plan Descriptions

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

All full-time and certain part-time employees of the District, other than teachers, are covered by General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

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

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

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.

GERF 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.

Contribution Rate
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 6.5% of pay, respectively of their annual covered salary in calendar year 2016. The District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in calendar year 2016. The District's contributions to the GERF for the year ended June 30, 2017, were $122,208. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Actuarial Assumptions

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

Assumptions	GERF
Inflation	2.5% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

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. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years.
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 for GERF was completed in 2015, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2016:

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

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 Allocations	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current active 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.

F. Pension Costs

At June 30, 2017, the District reported a liability of $2,070,474 for its proportionate share of the GERF'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 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $27,007. 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 0.0255%, which was an increase of 0.0015% from June 30, 2015.

The discount rate used to calculate liabilities for the June 30, 2015 measurement date was 7.9%. The Legislature has since set the discount rate in statute at 8%. Beginning June 30, 2016 measurement date, the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2017, the District recognized pension expense of $319,366 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional $8,053 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the GERF.

At June 30, 2017, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 6,128	$ 168,195
Changes in actuarial assumptions	446,552	-
Difference between projected and actual investment earnings	231,154	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	110,193	-
District's contributions to GERF subsequent to the measurement date	122,208	-
Total	$ 916,235	$ 168,195

$122,208 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2018	$ 182,995
2019	135,716
2020	232,331
2021	74,790
2022	-

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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	$ 2,940,686	$ 2,070,474	$ 1,353,655

H. Pension Plan Fiduciary Net Position

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

Teacher Retirement Associations (TRA)

A. Plan Descriptions

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

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by 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.

Independent School District No. 821
Menahga Area Public Schools
Notes to Financial Statements
June 30, 2017

B. Benefits Provided

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

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

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:

Tier1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per yer
	All years after	2.7% per yer
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per yer
	First ten years if service years are July 1, 2006 or after	1.4% per yer
	All other years of service if service years are up to July 1, 2006	1.7% per yer
	All other years of service if service years are July 1, 2006 or after	1.9% per yer

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 percent per year early retirement reduction factor for all years under normal retirement age.
(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

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

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

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

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

C. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ending June 30, 2015, June 30, 2016, and June 30, 2017 were:

	Employees	Employers
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

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

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	$ 354,961,140
Add employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	(442,978)
Total employer contributions	354,544,518
Total non-employer contributions	35,587,410
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$ 390,131,928

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	4.66, from the Single Equivalent Interest Rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50 - 9.50%
Cost of living adjustment	2.00%
Mortality assumptions	
Pre-retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The "Difference Between Expected and Actual Experience," "Changes of Assumptions," and "Changes in Proportion" use the amortization period of 6 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68.

E. Discount Rate

The discount rate used to measure the total pension liability was 4.66 percent. This is a decrease from the discount rate at the prior measurement date of 8.00 percent. 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 Rate 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 percent was applied to periods on and after 2052, resulting in a SEIR of 4.66 percent. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

F. Net Pension Liability

At June 30, 2017, the District reported a liability of $15,766,427 for its proportionate share of the 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. The District's proportionate share was 0.0661% at the end of the measurement period and 0.0682% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 15,766,427
State's proportionate share of the net pension liability associated with the district	$ 1,581,783

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. Power-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 $2,314,647. It also recognized $228,924 as an increase to pension expense for the support provided by direct aid.

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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 154,439	$ 440
Changes in actuarial assumptions	8,990,617	-
Difference between projected and actual investment earnings	682,067	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	119,781	108,255
District's contributions to TRA subsequent to the measurement date	292,735	-
Total	$ 10,239,639	$ 108,695

$292,735 was reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2018	$ 1,963,758
2019	1,963,761
2020	2,185,807
2021	1,998,075
2022	1,726,808

G. Net Pension Liability

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using one percent lower and one percent higher:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	$ 20,311,099	$ 15,766,427	$ 12,064,940

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

H. Pension Plan Fiduciary Net Position

Detailed information about 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, and St. Paul, MN, 55103-4000; or by calling (651-296-2409 or 800-657-3669.)

Note 9 - Commitments and Contingencies

Federal Revenue

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

Operating Leases

The District has entered into operating lease agreements for a number of photocopiers and a mailing machine. The District also entered into an operating lease for building space. The District is reimbursed from the Freshwater Education District for the lease payments made for building space. The lease agreements expire at various dates through 2018. The following is a schedule by year of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms in excess of one year.

Years Ending June 30	
2018	$ 23,585
2019	292
	$ 23,877

Lease expense for all leases of the District for the current year was $50,458.

Note 10 - Flexible Benefit Plan

The District has a flexible benefit plan which is classified as a "cafeteria plan" (the 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 healthcare, dependent care, and other health premium benefits.

Before the beginning of the Plan year, which is from July 1 to June 30, 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 to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

Payment of insurance premiums (health, dental, life, and disability) is 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 Fund and special revenue funds.

Amounts withheld for medical reimbursement and dependent care are paid by the third-party administrator to an employee submitting a request for reimbursement. Payments are made by the third-party administrator to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the employee.

All property of the Plan 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 general creditors of the District in an amount equal to eligible healthcare and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Note 11 - Employee Benefit Plan 403(b)

All employees are eligible to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan permits them to defer a portion of their salary until future years. Employees may defer up to the annual elective deferral limit set by the Internal Revenue Service, $18,000 per year for calendar years 2015 and 2016. Teachers who have completed three continuous year of full-time service with the District are eligible for a matching contribution. Certain administrative staff also receive a matching contribution based on the terms of their contract. The District matches certified teacher contributions based on the schedule below.

Years of Continuous, Full-Time Service to the School District	Maximum Annual School District Matching Contribution
0 - 3 years	$0
4 - 8 years	$500
9 - 13 years	$1,000
14 - 18 years	$1,500
19 and over	$2,000

Note 12 - Dental Self-Insurance

The District is self-insured with respect to dental insurance costs. The District implemented the self-insurance medical plan on September 9, 1998. Terms of the plan include maximum coverage each year for each individual covered by the plan of $750. The terms of the plan also include a life-time $1,000 maximum on orthodontic related care. Both maximums limit the District's liability. The following is the activity for the year ended June 30, 2017:

Claims incurred but not reported at beginning of year	$	8,036
Claims incurred		43,672
Claims paid		(49,139)
Claims incurred but not reported at end of year	$	2,569

Note 13 - Stewardship, Compliance, and Accountability

Budget control for the fund is established by its total appropriations.

The General Fund has expenditures exceeding appropriations in the amount of $286,395 for the year ended June 30, 2017. These over expenditures were funded by revenues exceeding budget and existing fund balance. During 2017, all school districts were required to record the additional pension expense related to the support received from the State of Minnesota for TRA and PERA special funding situations per GASB statement No. 68. During 2017, the Districts additional pension expense totaled $228,924. Therefore, the District's General Fund expenditures budget did exceed actual expenditures by $57,471 prior to this additional expense being recorded.

Note 14 - Subsequent Events

The District approved the sale of General Obligation Alternative Facilities Refunding Bonds, Series 2017A in October 2017. The Refunding Bonds will be issued in the amount of $1,665,000 to finance the refunding of the 2019-2022 maturities of the District's General Obligation Alternative Facilities Bonds, 2008A. The transaction will reduce the total debt service payments by $79,801 and provided an economic gain of $84,571.

Note 15 - Issued But Non-Effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. This statement will be implemented at the District in the year ended June 30, 2018.

The second statement issued but not yet implemented that will significantly affect the District is statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense This statement will be implemented at the District in the year ended June 30, 2019.

The third statement issued but not yet implemented that will significantly affect the District is statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement enhance the comparability of financial statements among governments. This statement will be implemented at the District in the year ended June 30, 2018.

The fourth statement issued but not yet implemented that will significantly affect the District is statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the District in the year ended June 30, 2020.

The fifth statement issued but not yet implemented that will significantly affect the District is statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. This statement will be implemented at the District in the year ended June 30, 2018.

The final statement issued but not yet implemented that will significantly affect the District is statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2021.

Management has not yet determined the effect these pronouncements will have on the District's financial statements.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Simplified Entry Age	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2015	$ -	$ 509,327	$ 509,327	0%	$ 4,599,763	11.07%
7/1/2012	-	651,367	651,367	0%	3,788,277	17.19%
7/1/2009	-	544,820	544,820	0%	3,423,015	15.92%

Note to the Schedule of Funding Progress

Since the last actuarial valuation as of July 1, 2012, the following actuarial assumptions have been changed:

- The health costs trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table was updated to reflect the projection of RP 2000 rates to 2012 to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 also were updated.
- The discount rate was changed from 4.00% to 3.50%.
- The percentage of future retirees who are assumed to be covered by one of the District's medical plans post-employment was changed from 80% for Administrators, Paraprofessionals, Teachers, and the Business Manager and 40% for all other District employees to 35% for Paraprofessionals, 10% for Bus Drivers, and 70% for all other District employees.

Since the last actuarial valuation as of July 1, 2012, the following plan provisions have changed:

- None

**Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years***

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (c) (a+b)	Employer's Covered-Employee Payroll (d) **	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/d) **	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2016	0.0255%	$ 2,070,474	N/A	$ 2,070,474	$ 1,581,563	130.9%	68.9%
PERA	6/30/2015	0.0230%	$ 1,191,979	N/A	$ 1,191,979	$ 1,352,502	88.1%	78.2%
PERA	6/30/2014	0.0225%	$ 1,056,937	N/A	$ 1,056,937	$ 1,170,228	90.3%	78.8%
TRA	6/30/2016	0.0661%	$ 15,766,427	$ 1,581,783	$ 17,348,210	$ 3,465,872	454.9%	44.9%
TRA	6/30/2015	0.0682%	$ 4,218,844	$ 517,715	$ 4,736,559	$ 3,479,230	121.3%	81.5%
TRA	6/30/2014	0.0693%	$ 3,193,294	$ 224,719	$ 3,418,013	$ 3,203,052	99.7%	81.5%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Schedule of Employer's Contributions
Last 10 Fiscal Years***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d) **	Contributions as a Percentage of Covered-Employee Payroll (b/d) **
PERA	6/30/2017	$ 122,208	$ 122,208	$ -	$ 1,629,440	7.5%
PERA	6/30/2016	$ 119,488	$ 119,488	$ -	$ 1,581,563	7.6%
PERA	6/30/2015	$ 100,017	$ 100,017	$ -	$ 1,352,502	7.4%
TRA	6/30/2017	$ 292,735	$ 292,735	$ -	$ 3,903,145	7.5%
TRA	6/30/2016	$ 259,941	$ 259,941	$ -	$ 3,465,872	7.5%
TRA	6/30/2015	$ 260,942	$ 260,942	$ -	$ 3,479,230	7.5%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

- PERA's CAFR may be obtained on the PERA's website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- TRA's CAFR may be obtained on the PERA's website at www.MinnesotaTRA.org for notes to the schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- Covered payroll has been retrospectively restated for all years presented to conform to the definition of covered payroll as clarified in GASB Statement No. 82, *Pension Issues*.

** Covered payroll as restated to conform to GASB Statement No. 82

Independent School District No. 821
Menahga Area Public Schools
General Fund
Schedule of Changes in UFARS Fund Balances
Year Ended June 30, 2017

	Fund Balance Beginning of Year	Net Change in Fund Balance	Fund Balance (Deficit) End of Year
Nonspendable	$ 14,063	$ 6,503	$ 20,566
Restricted for health and safety	(9,432)	-	(9,432)
Restricted for operating capital	180,009	(180,009)	-
Committed for severance	8,500	-	8,500
Committed for building project	1,300,000	-	1,300,000
Unassigned	2,712,273	152,108	2,864,381
	$ 4,205,413	$ (21,398)	$ 4,184,015

Independent School District No. 821
Menahga Area Public Schools
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2017

	Food Service	Community Service	Totals
Assets			
Cash and investments	$ 97,381	$ 36,614	$ 133,995
Receivables			
Current property taxes	-	18,700	18,700
Delinquent property taxes	-	1,300	1,300
Accounts	681	13,204	13,885
Due from other governmental units	165	7,699	7,864
Inventories	3,468	-	3,468
Total assets	$ 101,695	$ 77,517	$ 179,212
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities			
Accounts payable	$ 1,221	$ 3,250	$ 4,471
Salaries and benefits payable	228	360	588
Deferred revenue	8,583	-	8,583
Total liabilities	10,032	3,610	13,642
Deferred Inflows of Resources			
Unavailable revenue-property taxes	-	41,946	41,946
Fund Balance			
Nonspendable	3,468	-	3,468
Restricted	88,195	31,961	120,156
Total fund balance	91,663	31,961	123,624
Total liabilities, deferred inflows of resources, and fund balances	$ 101,695	$ 77,517	$ 179,212

Independent School District No. 821
Menahga Area Public Schools
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2017

	Food Service	Community Service	Totals
Revenues			
Local property tax levies	$ -	$ 40,486	$ 40,486
Other local and county sources	3,718	18,426	22,144
State sources	38,593	92,366	130,959
Federal sources	328,574	-	328,574
Sales and other conversion of assets	118,521	-	118,521
Total revenues	489,406	151,278	640,684
Expenditures			
Community education and service	-	133,375	133,375
Pupil support services	460,304	-	460,304
Total expenditures	460,304	133,375	593,679
Net Change in Fund Balance	29,102	17,903	47,005
Fund Balance, Beginning of Year	62,561	14,058	76,619
Fund Balance, End of Year	$ 91,663	$ 31,961	$ 123,624

Independent School District No. 821
Menahga Area Public Schools
Changes in Student Activity Cash Balances
Year Ended June 30, 2017

Activity	Balance 7/1/16	Receipts and Transfers	Disbursements and Transfers	Balance 6/30/17
Class of 2017	$ 380	$ 5,984	$ 6,364	$ -
Class of 2018	372	5,109	5,198	283
Class of 2019	448	2	450	-
Class of 2020	310	2	-	312
Class of 2021	950	5	-	955
Class of 2022	1,556	9	-	1,565
Choir Activity Account	7,649	1,014	851	7,812
BPA	4,239	13,364	11,433	6,170
Elementary Wrestling	10,891	6,694	7,685	9,900
Elementary General	7,123	5,217	8,683	3,657
Elementary Boy's BB	177	3,863	1,241	2,799
FFA	5,696	12,143	12,902	4,937
FLA	2,470	4,955	4,251	3,174
Spanish Club	1,657	234	255	1,636
Girls Softball	1,499	4,139	3,666	1,972
Drama Club	408	320	164	564
Band Activity	1,689	23,390	18,973	6,106
Yearbook	4,526	7,549	7,451	4,624
Student Council	3,194	3,684	3,699	3,179
Art Smart Board	226	1	-	227
M-Club	2,038	13,380	13,476	1,942
Football	778	953	1,443	288
Elementary Girls BB	34	2,896	1,154	1,776
Boys Basketball	2	5,977	5,279	700
Girls Basketball	110	5,901	1,972	4,039
Volleyball	2,046	6,356	6,404	1,998
MS General	-	1,126	315	811
Wrestling Cheerleading	99	-	-	99
History	5	-	-	5
Special Olympics	1,124	284	115	1,293
HS Spec Ed	861	2,422	1,622	1,661
Boys/Girls Golf	1,270	2,409	2,549	1,130
MSHSL Foundation	-	1,408	1,055	353
Robotics	1,172	5	-	1,177
Concessions	722	18,676	18,384	1,014
5th Grade	2,237	3,289	4,180	1,346
National Honor Society	1,403	6,535	6,950	988
Trap Shooting	639	652	1,115	176
Students Working as a Team	1,851	4,602	5,787	666
Speech	-	1,057	837	220
	$ 71,851	$ 175,606	$ 165,903	$ 81,554

Independent School District No. 821
Menahga Area Public Schools
Uniform Accounting and Reporting Standards Compliance Table
Year Ended June 30, 2017

Fiscal Compliance Report - 6/30/2017 Help Logoff
District: MENAHGA (821-1) Back Print

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total Revenue	$10,762,260	$10,762,260	$0
Total Expenditures	$10,783,658	$10,783,658	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$20,566	$20,566	$0
Restricted / Reserved:			
4.03 Staff Development	$0	$0	$0
4.06 Health and Safety	($9,432)	($9,432)	$0
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.14 Operating Debt	$0	$0	$0
4.16 Levy Reduction	$0	$0	$0
4.17 Taconite Building Maint	$0	$0	$0
4.24 Operating Capital	$0	$0	$0
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$0	$0	$0
4.28 Learning & Development	$0	$0	$0
4.34 Area Learning Center	$0	$0	$0
4.35 Contracted Alt. Programs	$0	$0	$0
4.36 State Approved Alt. Program	$0	$0	$0
4.38 Gifted & Talented	$0	$0	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.41 Basic Skills Programs	$0	$0	$0
4.45 Career Tech Programs	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe School Crime - Crime Levy	$0	$0	$0
4.50 Pre-Kindergarten	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.53 Unfunded Sev & Retiremt Levy	$0	$0	$0
4.67 LTFM	$0	$0	$0
4.72 Medical Assistance	$0	$0	$0
Restricted			
4.64 Restricted Fund Balance	$0	$0	$0
Committed			
4.18 Committed for Separation	$8,500	$8,500	$0
4.61 Committed Fund Balance	$1,300,000	$1,300,000	$0
Assigned			
4.62 Assigned Fund Balance	$0	$0	$0
Unassigned			
4.22 Unassigned Fund Balance	$2,864,381	$2,864,380	$1
02 FOOD SERVICES			
Total Revenue	$489,406	$489,406	$0
Total Expenditures	$460,304	$460,306	($2)
Non Spendable:			
4.60 Non Spendable Fund Balance	$3,468	$3,468	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted			
4.64 Restricted Fund Balance	$88,193	$88,193	$0
Unassigned			
4.63 Unassigned Fund Balancee	$0	$0	$0
04 COMMUNITY SERVICE			
Total Revenue	$151,278	$151,276	$2
Total Expenditures	$133,375	$133,375	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$6,167	$6,167	$0
4.32 E.C.F.E	$5,050	$5,050	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$20,246	$20,246	$0
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted			
4.64 Restricted Fund Balance	$498	$497	$1
Unassigned			
4.63 Unassigned Fund Balance	$0	$0	$0

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.07 Capital Projects Levy	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned			
4.63 Unassigned Fund Balance	$0	$0	$0
07 DEBT SERVICE			
Total Revenue	$476,745	$476,744	$1
Total Expenditures	$475,640	$475,640	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.25 Bond Refundings	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
Restricted			
4.64 Restricted Fund Balance	$109,182	$109,182	$0
Unassigned			
4.63 Unassigned Fund Balance	$0	$0	$0
08 TRUST			
Total Revenue	$341	$341	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$46,269	$46,269	$0
20 INTERNAL SERVICE			
Total Revenue	$66,110	$66,110	$0
Total Expenditures	$49,139	$49,139	$0
4.22 Unassigned Fund Balance (Net Assets)	$78,517	$78,517	$0
25 OPEB REVOCABLE TRUST			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
47 OPEB DEBT SERVICE			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted			
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned			
4.63 Unassigned Fund Balance	$0	$0	$0

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CPAs & BUSINESS ADVISORS

Independent Auditor's 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*

The School Board of
Independent School District No. 821
Menahga Area Public Schools
Menahga, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menahga Area Public Schools, Independent School District No. 821, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 26, 2017.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2017-A and 2017-B described in the accompanying schedule of findings to be material weaknesses.

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4310 17th Ave. S. | P.O. Box 2545 | Fargo, ND 58108-2545 | T 701.239.8500 | F 701.239.8600 | EOE

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.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Response to Findings
The District's responses to the findings identified in our audit are described in the District's Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Eide Bailly LLP

Fargo, North Dakota
October 26, 2017

EideBailly
CPAs & BUSINESS ADVISORS

Report on Compliance over
Financial Reporting of the Student Activity Accounts

The School Board of
Independent School District No. 821
Menahga Area Public Schools
Menahga, 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 and the provisions of the *Manual for Activity Fund Accounting (MAFA)*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menahga Area Public Schools, Independent School District No. 821, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 26, 2017.

Compliance
As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity 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.

This report is intended solely for the information and use of management, the School Board, the Minnesota Department of Education, and other state agencies and is not intended to be and should be used by anyone other than those specified parties.

Eide Bailly LLP

Fargo, North Dakota
October 26, 2017

EideBailly
CPAs & BUSINESS ADVISORS

Report on *Minnesota Legal Compliance*

The School Board of
Independent School District No. 821
Menahga Area Public Schools
Menahga, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menahga Area Public Schools Independent School District No. 821 as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains 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 for school districts. Our audit considered all of the listed categories.

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 *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding 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 and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Fargo, North Dakota
October 26, 2017

www.eidebailly.com

Section I – Financial Statement Findings

2017-A Significant Journal Entries
Material Weakness

Condition: During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect: This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause: The District does not have an internal control system designed to identify all necessary adjustments.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit, and adjustments should be made where necessary. This review should be done at both the accounting staff and accounting supervisor levels.

View of Responsible Officials: There is no disagreement with the audit finding.

2017-B Preparation of Financial Statements
Material Weakness

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for internally preparing the District's financial statements.

Effect: The disclosures in the financial statements could be incomplete.

Cause: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Recommendation: This circumstance is not unusual in a District of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

View of Responsible Officials: There is no disagreement with the audit finding.

Section II – Student Activity Findings

None reported

Section III – Minnesota Legal Compliance Findings

None reportedp

APPENDIX B

FORM OF LEGAL OPINION

(See following page)

KNUTSON, FLYNN & DEANS, P.A.
1155 Centre Pointe Drive, Suite 10
Mendota Heights, MN 55120
651.222.2811 fax 651.225.0600
www.kfdmn.com

$8,335,000
GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2017B
INDEPENDENT SCHOOL DISTRICT NO. 821
(MENAHGA)
WADENA, BECKER, HUBBARD AND OTTER TAIL COUNTIES, MINNESOTA

We have acted as Bond Counsel in connection with the issuance by Independent School District No. 821 (Menahga), Wadena, Becker, Hubbard and Otter Tail Counties, Minnesota (the "District"), of its General Obligation School Building Bonds, Series 2017B (the "Bonds"), in the aggregate principal amount of $8,335,000, bearing a date of original issue of December 28, 2017. The Bonds are fully registered as to principal and interest and are originally issued using a global book-entry system.

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

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

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

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

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

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

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

(5) The Bonds have been designated as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code relating to the deduction of interest expenses allocable to the Bonds by financial institutions.

DATED at Mendota Heights, Minnesota, this 28th day of December, 2017.

KNUTSON, FLYNN & DEANS
Professional Association

APPENDIX C

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following page)

CONTINUING DISCLOSURE CERTIFICATE
(Full Disclosure)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 821 (Menahga), State of Minnesota (the "District"), in connection with the issuance of its General Obligation School Building Bonds, Series 2017B (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the School Board on December 11, 2017 (the "Resolution"). The District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55 (the "State Payment Law" described in the Official Statement for the Bonds) which provides for payment by the State of Minnesota in the event of a potential default of a District obligation. The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Bondholders or beneficial owners, if different, and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5). This Disclosure Certificate constitutes the written Undertaking required by the Rule.

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

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

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

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The District shall provide, or shall cause the Dissemination Agent to provide not later than June 30, 2018, and twelve (12) months after the end of each Fiscal Year during which the Bonds are outstanding, to the MSRB, in an electronic format through the use of EMMA, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. If audited financial statements are not available by the date specified above, the District shall submit unaudited financial statements by that date to the MSRB and will submit the audited financial statements as soon as they are available.

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

(c) The Dissemination Agent shall:

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

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

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

1. An annual Audited Financial Statement.

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

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

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

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events, with respect to the Bonds:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. Modifications to rights of security holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the obligated person;

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

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

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

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

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

SECTION 14. District Contact Information.

Title:	Superintendent
Name of District:	Independent School District No. 821 (Menahga)
Address:	216 Aspen Avenue S.E.
	P.O. Box 160
	Menahga, MN 56464
Telephone No.	(218) 564-4141

Dated as of this 28th day of December, 2017.

INDEPENDENT SCHOOL DISTRICT NO. 821
MENAHGA, MINNESOTA

By: ______________________________
Chair

And: ______________________________
Clerk

[Signature Page for Continuing Disclosure Certificate]

APPENDIX E

TERMS OF PROPOSAL

$8,335,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2017B INDEPENDENT SCHOOL DISTRICT NO. 821 (MENAHGA), MINNESOTA

Proposals for the purchase of $8,335,000* General Obligation School Building Bonds, Series 2017B (the "Bonds") of Independent School District No. 821 (Menahga), Minnesota (the "District") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the District, until 10:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:30 A.M. Central Time, on December 11, 2017, at which time they will be opened, read and tabulated. The proposals will be presented to the Board of Education for consideration for award by resolution at a meeting to be held at 5:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, and a special election held November 7, 2017 by the District for the purpose of financing the acquisition and betterment of school sites and facilities in the District. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated December 28, 2017, will be issued as fully registered Bonds in the denomination of $5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2023	$385,000	2029	$495,000	2035	$590,000
2024	415,000	2030	510,000	2036	610,000
2025	440,000	2031	525,000	2037	630,000
2026	455,000	2032	540,000	2038	655,000
2027	470,000	2033	560,000		
2028	480,000	2034	575,000		

ADJUSTMENT OPTION

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

TERM BOND OPTION

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

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2018, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2023 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%).** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

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

PAYING AGENT

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

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 and on any date thereafter, at a price of par plus accrued interest.

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

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

DELIVERY

On or about December 28, 2017, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the District will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the District, threatened. Payment for the Bonds must be received by the District at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

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

SUBMISSION OF PROPOSALS

Proposals must not be for less than $8,251,650 plus accrued interest on the principal sum of $8,335,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

1) Electronically to bondsale@ehlers-inc.com; or

2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or

3) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:30 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the District nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of $166,700 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

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

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

AWARD

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

BOND INSURANCE

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

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

CUSIP NUMBERS

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

CONTINUING DISCLOSURE

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

NEW ISSUE PRICING

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

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

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

(1) The District shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;

(2) all bidders shall have an equal opportunity to bid;

(3) the District may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

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

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

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

(1) the close of the fifth (5^{th}) business day after the sale date; or
(2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the District when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5^{th}) business day after the sale date.

The District acknowledges that in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(e) <u>If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the 10% test</u>, the Underwriter agrees to promptly report to the District, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until the 10% test has been satisfied as to each maturity of the Bonds or until all of the Bonds of a certain maturity have been sold.

(f) By submitting a proposal, each bidder confirms that (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwrier that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if an for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

(g) Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

(i) "public" means any person other than an underwriter or a related party,

(ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "sale date" means the date that the Bonds are awarded by the District to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

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

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

By Order of the Board of Education

Independent School District No. 821 (Menahga), Minnesota

PROPOSAL FORM

The Board of Education **December 11, 2017**
Independent School District No. 821 (Menahga), Minnesota

RE: $8,335,000* General Obligation School Building Bonds, Series 2017B
DATED: December 28, 2017

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you $__________________ (not less than $8,251,650) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2023	________	% due	2029	________	% due	2035
________	% due	2024	________	% due	2030	________	% due	2036
________	% due	2025	________	% due	2031	________	% due	2037
________	% due	2026	________	% due	2032	________	% due	2038
________	% due	2027	________	% due	2033			
________	% due	2028	________	% due	2034			

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

The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2023 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

We enclose our Deposit in the amount of $166,700, to be held by you pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our Deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138.** Such Deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. If our proposal is not accepted, said deposit shall be promptly returned to us. If the Deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about December 28, 2017.

This proposal is subject to the District's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for this Issue.

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

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an Underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

If the competitive sale requirements are <u>not</u> met, we elect to use the (circle one): 10% test / hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: ______________________________ By: ______________________________

Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from December 28, 2017 of the above proposal is $_______________and the true interest cost (TIC) is __________%.

The foregoing offer is hereby accepted by and on behalf of the Board of Education of Independent School District No. 821 (Menahga), Minnesota, on December 11, 2017.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________