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

New Issue **Rating Application Made: Moody's Investors Service**

(Minnesota School District Credit Enhancement Program)

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 2, 2017

INDEPENDENT SCHOOL DISTRICT NO. 203 (HAYFIELD COMMUNITY SCHOOLS), MINNESOTA

(Dodge, Mower, and Olmsted Counties)

$13,800,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2017B

PROPOSAL OPENING: November 15, 2017, 10:00 A.M., C.T. **CONSIDERATION**: November 15, 2017, 6:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $13,800,000* General Obligation School Building Bonds, Series 2017B (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475, and a special election held September 11, 2017 by the Independent School District No. 203 (Hayfield Community Schools), 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 7, 2017

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2019	$425,000	2026	$620,000	2033	$775,000
2020	465,000	2027	640,000	2034	810,000
2021	465,000	2028	660,000	2035	840,000
2022	535,000	2029	680,000	2036	875,000
2023	555,000	2030	700,000	2037	910,000
2024	580,000	2031	720,000	2038	1,195,000
2025	600,000	2032	750,000		

MATURITY ADJUSTMENTS: * The School 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 par.

MINIMUM PROPOSAL: $13,662,000

GOOD FAITH DEPOSIT: A cashier's check in the amount of $276,000 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 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 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 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 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 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").

Official Statement: This 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 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 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 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 Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Upon award of sale of the Bonds, the Official Statement together with any previous addendum of corrections or additions will be further supplemented by an addendum specifying the offering prices, interest rates, aggregate principal amount, principal amount per maturity, anticipated delivery date, and Syndicate Manager and Syndicate Members, together with any other information required by law, and, as supplemented, shall constitute a "Final Official Statement" of the District with respect to the Bonds, as defined in the Rule. Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over $1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Official Statement describes the conditions under which the Bonds are 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 Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the District nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the District which indicates that the District does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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BOARD OF EDUCATION

		Term Expires
Lana Mindrup	Chairperson	January 2019
Kathy Hegna Zelinske	Vice Chairperson	January 2021
Patrick Towey, Jr.	Clerk	January 2021
Lori Rouhoff	Treasurer	January 2019
Brenda Becker	Director	January 2019
Justin Holtan	Director	January 2021
Greg Peterson	Director	January 2021

ADMINISTRATION

Greg Slaathaug, Superintendent of Schools

Amber Uhlenhake Herbrand, 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 the Independent School District No. 203 (Hayfield Community Schools), Minnesota (the "District") and the issuance of its $13,800,000* 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 November 15, 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 7, 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 2019 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 September 11, 2017, for the purpose of financing the acquisition and betterment of school facilities in the District. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged.

ESTIMATED SOURCES AND USES

Sources			
	Par Amount of Bonds	$13,800,000	
	Original Issue Premium	525,630	
	Total Sources		**$14,325,630**
Uses			
	Project Costs	$14,118,450	
	Estimated Discount	138,000	
	Finance Related Expenses	69,180	
	Total Uses		**$14,325,630**

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 Moody's Investor Service ("Moody's"). The "Aa2" rating is based on the State of Minnesota's current "Aa2" rating from Moody's. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM" for further details.

The District does not currently have an underlying rating, however, has requested an underlying rating on this issue from Moody's. 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 October 11, 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. However, 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 audits 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.

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

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

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, 2016 have been audited by Smith, Schafer and Associates, Ltd., Rochester, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

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

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

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

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

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

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the 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%

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 $1,090,707,301[1]

2016/17 Assessor's Estimated Market Value

	Dodge County	Mower County	Olmsted County	Total
Real Estate	$517,498,100	$474,280,400	$ 60,182,500	$ 1,051,961,000
Personal Property	2,568,000	20,521,200	1,372,600	24,461,800
Total Valuation	$520,066,100	$494,801,600	$ 61,555,100	$ 1,076,422,800

2016/17 Net Tax Capacity

	Dodge County	Mower County	Olmsted County	Total
Real Estate	$ 4,192,849	$ 3,848,596	$ 458,076	$ 8,499,521
Personal Property	49,522	410,388	27,452	487,362
Net Tax Capacity	$ 4,242,371	$ 4,258,984	$ 485,528	$ 8,986,883
Less: Captured Tax Increment Tax Capacity[2]	(11,274)	0	0	(11,274)
Taxable Net Tax Capacity	$ 4,231,097	$ 4,258,984	$ 485,528	$ 8,975,609

1 According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 203 (Hayfield Community Schools) is about 98.63% 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 $1,090,707,301.

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

2016/17 NET TAX CAPACITY BY CLASSIFICATION

	2016/17 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$ 1,165,004	12.96%
Agricultural	6,536,959	72.74%
Commercial/industrial	411,545	4.58%
Public utility	14,529	0.16%
Non-homestead residential	367,314	4.09%
Commercial & residential seasonal/rec.	4,170	0.05%
Personal property	487,362	5.42%
Total	$ 8,986,883	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	$ 880,760,200	$ 843,547,300	$ 7,537,950	$ 7,510,551	+12.10%
2013/14	1,105,045,600	1,068,664,800	9,497,319	9,469,880	+25.47%
2014/15	1,143,807,100	1,107,723,300	9,623,099	9,595,887	+ 3.51%
2015/16	1,111,644,100	1,075,059,300	9,269,610	9,241,693	- 2.81%
2016/17	1,076,422,700	1,040,887,800	8,986,883	8,975,609	- 3.17%

1 Net Tax Capacity includes tax increment values.

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

LARGER TAXPAYERS

Taxpayer	Type of Property	2016/17 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Great River Energy	Utility	$404,296	4.50%
Zaitz Trust LLP	Agricultural	87,377	0.97%
Individual	Agricultural/Residential	85,888	0.96%
Akkerman Real Estate Company LLLP	Agricultural	72,938	0.81%
M & K Preul Farms, LLC	Agricultural	65,125	0.72%
Individual	Agricultural	61,464	0.68%
Hutterian Brethren Church & Schmiedenlent Inc.	Commercial	48,729	0.54%
Eva L Schnirring Trust	Agricultural	46,146	0.51%
Xcel Energy	Utility	42,180	0.47%
Klocke Brothers	Agricultural/Residential	37,777	0.42%
Total		$951,919	10.59%

District's Total 2016/17 Net Tax Capacity $8,986,883

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Dodge, Mower and Olmsted 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)*	$ 24,054,000

*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 District does not currently qualify for debt service equalization aid.

In addition to debt service equalization aid, some school districts will qualify for state Long Term Facilities Maintenance Aid to finance a portion of the payments on Alternative Facilities Bonds and Facilities Maintenance Bonds, pursuant to the Long Term Facilities Maintenance Revenue (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.

INDEPENDENT SCHOOL DISTRICT NO. 203 (HAYFIELD), MINNESOTA

Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(As of 12/7/17)
FISCAL YEAR BASIS

	Refunding 1) Series 2012B		Tx Fac. Maint. (QZABs) Series 2017A		Building Bonds Series 2017B							
Dated	11/14/12		9/1/17		12/7/17							
Amount	$2,745,000		$9,694,000		$13,800,000*							
Maturity	2/01		2/01, 8/1		2/01							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2018	560,000	4,480	248,564	0	0	0	808,564	4,480	813,044	23,245,436	3.36%	**2018**
2019			497,128	0	425,000	574,368	922,128	574,368	1,496,496	22,323,308	7.20%	**2019**
2020			497,128	0	465,000	486,700	962,128	486,700	1,448,828	21,361,180	11.19%	**2020**
2021			497,128	0	465,000	472,750	962,128	472,750	1,434,878	20,399,052	15.19%	**2021**
2022			497,128	0	535,000	458,800	1,032,128	458,800	1,490,928	19,366,924	19.49%	**2022**
2023			497,129	0	555,000	437,400	1,052,129	437,400	1,489,529	18,314,795	23.86%	**2023**
2024			497,129	0	580,000	415,200	1,077,129	415,200	1,492,329	17,237,666	28.34%	**2024**
2025			497,129	0	600,000	392,000	1,097,129	392,000	1,489,129	16,140,537	32.90%	**2025**
2026			497,129	0	620,000	374,000	1,117,129	374,000	1,491,129	15,023,408	37.54%	**2026**
2027			497,128	0	640,000	355,400	1,137,128	355,400	1,492,528	13,886,280	42.27%	**2027**
2028			497,128	0	660,000	336,200	1,157,128	336,200	1,493,328	12,729,152	47.08%	**2028**
2029			497,128	0	680,000	316,400	1,177,128	316,400	1,493,528	11,552,024	51.97%	**2029**
2030			497,128	0	700,000	296,000	1,197,128	296,000	1,493,128	10,354,896	56.95%	**2030**
2031			497,128	0	720,000	275,000	1,217,128	275,000	1,492,128	9,137,768	62.01%	**2031**
2032			497,128	0	750,000	246,200	1,247,128	246,200	1,493,328	7,890,640	67.20%	**2032**
2033			497,128	0	775,000	216,200	1,272,128	216,200	1,488,328	6,618,512	72.48%	**2033**
2034			497,128	0	810,000	185,200	1,307,128	185,200	1,492,328	5,311,384	77.92%	**2034**
2035			497,128	0	840,000	152,800	1,337,128	152,800	1,489,928	3,974,256	83.48%	**2035**
2036			497,128	0	875,000	119,200	1,372,128	119,200	1,491,328	2,602,128	89.18%	**2036**
2037			497,128	0	910,000	84,200	1,407,128	84,200	1,491,328	1,195,000	95.03%	**2037**
2038					1,195,000	47,800	1,195,000	47,800	1,242,800	0	100.00%	**2038**
	560,000	4,480	9,694,000	0	13,800,000	6,241,818	24,054,000	6,246,298	30,300,298			

*Preliminary, subject to change.

1) This issue refunded the 2014 through 2018 maturities of the District's $5,765,000 General Obligation School Building Refunding Bonds, Series 2004B, dated October 7, 2004.

BONDED DEBT LIMIT

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

2016/17 Economic Market Value	$1,090,707,301
Multiply by 15%	0.15
Statutory Debt Limit	$ 163,606,095
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(24,054,000)
Unused Debt Limit*	$ 139,552,095

*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
Dodge County	$ 25,896,217	16.3387%	$ 9,930,000	$ 1,622,433
Mower County	41,636,429	10.2290%	13,435,000	1,374,266
Olmsted County	174,402,505	0.2784%	72,765,000	202,578
City of Hayfield	600,790	100.0000%	465,000	465,000
District's Share of Total Overlapping Debt				$ 3,664,277

DEBT PAYMENT HISTORY

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

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 ($1,090,707,301)	Debt/ Current Population Estimate (4,914)
Tax Supported General Obligation Debt (includes the Obligations)*	$ 24,054,000	2.21%	$4,894.99
District's Share of Total Overlapping Debt	$ 3,664,277	0.34%	$745.68
Total*	$ 27,718,277	2.54%	$5,640.68

*Preliminary, subject to change.

FUTURE FINANCING

The District has no current plans for additional financing in the next 12 months.

LEVY LIMITS

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

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

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date[2]	% Collected
2012/13	$ 1,610,814	$ 1,583,482	$ 1,608,485	99.86%
2013/14	1,513,301	1,493,783	1,510,686	99.83%
2014/15	1,619,743	1,594,245	1,614,744	99.69%
2015/16	1,447,157	1,420,415	1,439,919	99.50%
2016/17	1,768,139	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.

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

2 Collections are through June 30, 2017 for Dodge and Olmsted Counties, and May 16, 2017 for Mower 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. 203 (Hayfield Community Schools)	13.361%	10.280%	12.225%	11.510%	13.523%
Dodge County	48.827%	42.998%	45.811%	48.510%	50.630%
Mower County	49.349%	40.460%	42.775%	46.127%	48.204%
Olmsted County	60.414%	58.319%	57.532%	57.796%	54.346%
City of Brownsdale	104.061%	116.316%	115.689%	117.175%	116.458%
City of Sargeant	52.236%	52.698%	49.868%	61.886%	66.192%
City of Waltham	47.505%	46.615%	50.862%	60.421%	85.437%
City of Hayfield	85.183%	87.232%	97.276%	110.963%	111.454%
Town of Windom[2]	16.246%	11.960%	12.210%	13.855%	14.210%
Cedar River Watershed	1.196%	0.983%	0.957%	0.997%	1.392%
Mower County HRA	0.357%	0.284%	0.300%	0.345%	0.374%
Olmsted County HRA	N/A	N/A	N/A	0.865%	0.793%
Referendum Market Value Rates:					
I.S.D. No. 203 (Hayfield Community Schools)	0.23940%	0.21069%	0.18185%	0.16176%	0.22065%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Dodge, Mower and Olmsted Counties.

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

2 Representative town rate.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 83, including 27 non-licensed employees and 56 licensed employees (52 of whom are teachers). The District provides education for 687 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
Hayfield Education Association	June 30, 2017
Education Support Professionals	June 30, 2018
Hayfield Principal Association	June 30, 2018

Status of Contracts

Contracts which expired on 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 District's most recent actuarial study of its OPEB obligations shows an actuarial accrued liability of $1,253,155 as of July 1, 2014. 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
2012/13	67	333	334	734
2013/14	58	332	345	735
2014/15	46	329	319	694
2015/16	39	317	313	669
2016/17	53	295	339	687

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2017/18	50	293	333	676
2018/19	50	292	318	660
2019/20	50	283	319	652

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
High School	1959	1963, 1971, 1999, 2000
Elementary School	1969-70	1999, 2000

FUNDS ON HAND (as of September 30, 2017)

Fund	Total Cash and Investments
General	$ 1,740,002
Food Service	44,476
Community Service	117,965
Debt Service	479,430
Building/Construction	8,884,330
Trust & Agency	75,341
Student Activity	26,548
Total Fund on Hand	$11,368,092

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 2016 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING JUNE 30 2014 Audited	2015 Audited	2016 Audited	2016-17 Unaudited[1]	2017-18 Adopted Budget[2]
Revenues					
Local property taxes	$ 531,190	$ 979,230	$ 1,063,339	$ 933,671	$ 1,172,249
Other local sources	116,637	274,990	279,058	355,847	111,420
Revenues from state sources	6,548,327	6,471,859	6,332,789	6,277,290	6,354,363
Revenues from federal sources	113,350	146,477	141,271	135,319	135,607
Earning on investments	256	1,005	2,752	0	0
Total Revenues	$ 7,309,760	$ 7,873,561	$ 7,819,209	$ 7,702,127	$ 7,773,639
Expenditures					
Administration	$ 497,620	$ 562,491	$ 576,315	$ 477,905	$ 481,546
District support services	266,432	396,082	335,331	377,030	331,637
Elementary & secondary regular instruction	3,462,018	3,864,139	3,572,584	3,453,367	3,290,962
Vocational education instruction	107,386	23,574	299,057	282,198	225,142
Special education instruction	1,172,701	1,144,876	979,228	1,000,822	1,027,119
Instructional support services	250,895	245,923	225,582	323,616	320,007
Pupil support services	782,199	773,304	781,391	876,341	824,097
Sites and buildings	718,582	754,667	732,546	731,819	911,641
Fiscal and other fixed cost programs	24,012	41,431	43,526	49,961	42,800
Capital Outlay	163,867	0	0	0	0
Debt service	20,139	0	0	0	0
Total Expenditures	$ 7,465,851	$ 7,806,487	$ 7,545,560	$ 7,573,059	$ 7,454,951
Excess of revenues over (under) expenditures	$ (156,091)	$ 67,074	$ 273,649	$ 129,068	$ 318,688
Other Financing Sources (Uses)					
Lease proceeds	$ 28,640	$ 0	$ 0	$ 0	
Sale of equipment	0	322	0	0	
Operating transfers in	0	108,719	0	0	
Operating transfers out	0	0	0	0	
Total Other Financing Sources (Uses)	$ 28,640	$ 109,041	$ 0	$ 0	
Net Change in Fund Balances	$ (127,451)	$ 176,115	$ 273,649	$ 129,068	
General Fund Balance July 1	829,777	633,761	809,876	1,083,525	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	(68,565)	0	0	0	
General Fund Balance June 30	$ 633,761	$ 809,876	$ 1,083,525	$ 1,212,593	
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	$ 55,564	$ 61,805	$ 55,616		
Restricted	233,702	256,439	272,251		
Committed	0	0	0		
Assigned	3,868	3,868	110,884		
Unassigned	340,627	487,764	644,774		
Total	$ 633,761	$ 809,876	$ 1,083,525		

1 Unaudited data is as of October 12, 2017.

2 The 2017-18 budget was adopted on June 12, 2017. The budget does not include student activity accounts which are under board control and are included in the previous years' audited and unaudited data.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 4,783 and a current population estimate of 4,914, and comprising an area of 122,880 acres, is located approximately 94 miles south of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS[1]

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Hayfield Window & Door Company	Window manufacturer	150
I.S.D. No. 203 (Hayfield Schools)	Elementary and secondary education	83
Field Crest Care Center	Nursing home	81
Akkerman Manufacturing, Inc	Tunneling equipment manufacturer	55
IBI Data	Food service marketing	55
A&W All American Food	Restaurant	30
City of Hayfield	Municipal government and services	22
Casey's General Store	Convenience stores	20
Uncle Mony's Restaurant & Spare Time Lanes	Restaurant and bowling alley	20
Citizens State Bank Hayfield	Bank	16
Country Wide Carriers Inc	Trucking- contract hauling	15

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

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[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. 203 (Hayfield Community Schools), Minnesota

2000 U.S. Census population	4,887
2010 U.S. Census population	4,783
2015 Population Estimate	4,914
Percent of Change 2000 - 2010	-2.13%

Income and Age Statistics

	Hayfield Community School District	Dodge County	State of Minnesota	United States
2015 per capita income	$30,255	$30,091	$32,157	$28,930
2015 median household income	$62,569	$68,116	$61,492	$53,889
2015 median family income	$76,339	$78,642	$77,055	$66,011
2015 median gross rent	$620	$635	$848	$928
2015 median value owner occupied units	$146,500	$158,700	$186,200	$178,600
2015 median age	41.3 yrs.	37.9 yrs.	37.7 yrs.	37.6 yrs.

	State of Minnesota	United States
District % of 2015 per capita income	94.09%	104.58%
District % of 2015 median family income	99.07%	115.65%

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	Dodge County	Dodge County	State of Minnesota
2013	10,783	4.7%	4.9%
2014	10,738	4.2%	4.2%
2015	10,940	3.8%	3.7%
2016	11,043	3.8%	3.8%
2017, September	11,073	32.7%	2.9%

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.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

FINANCIAL STATEMENTS

JUNE 30, 2016

SMITH•SCHAFER
& ASSOCIATES, LTD.
Certified Public Accountants and Consultants

Members of American Institute of CPAs,
Private Companies Practice Section, Minnesota Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Education
Independent School District #203
Hayfield, 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 the Independent School District #203, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Independent School District #203'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 opinions on these financial statements based on our audit. We conducted our audits 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 of 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 Independent School District #203 as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rochester Office • 220 South Broadway • Suite 102 • Rochester, MN 55904 • PH (507) 288-3277 • FAX (507) 288-4571
Offices In: Twin Cities and Red Wing • www.smithschafer.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12 and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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 basic financial statements. The introductory section, supplementary information, and Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section 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.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2015, from which such partial information was derived.

We have previously audited the District's 2015 financial statements and our report, dated November 23, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued a report dated November 21, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting and 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.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
November 21, 2016

This section of Independent School District #203 – Hayfield Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-2016 fiscal year include the following:

- The total assets are $8,708,372.
- Overall revenues for the General Fund were $7,819,209 while overall expenses totaled $7,545,560.
- The General Fund Unassigned Fund Balance is $644,774. This represents an increase of $267,048 from last fiscal year. The Restricted General Fund balances included State required reserves for operating capital, approved Health and Safety projects, and other items. These balances total $272,251 as compared to $256,439 last fiscal year.
- The General Fund total fund balance increased by $273,649 from the prior year. This fund increase is partially due to the continued effort by the District to reduce expenses whenever feasible.
- In November 2007, the District passed a $600 per pupil unit referendum for five years. This replaced a $400 per pupil unit referendum, which expired in 2009. In November 2011, the voters approved revoking the $600 per pupil unit, which would have expired in 2014, and to approve a $900 per pupil unit referendum for five years, which began in 2012 and expires in 2017. In November 2015 the voters approved a $851.78 per pupil unit referendum which resulted in $300 per pupil unit additional authority. The voter approved authority of $851.78 is not subject to a reduction for the Local Optional Revenue levy, which is in the amount of $424, thus the Districts combined referendum levy authority is $1,275.78. The additional funding will help to maintain programs in the District and pay for general operating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund-financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the 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 and liabilities. 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 liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is 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.

In the district-wide financial statements the District's activities are shown in one category: Governmental activities. Most of the District's basic services are included here, such as elementary and secondary regular instruction, 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 (i.e. scholarship trust fund).

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The District has two kinds of funds:

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

- ***Fiduciary funds.*** The District is the trustee, or fiduciary, for assets that belong to others, such as the private purpose trust fund consisting of the scholarship fund. 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. The District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The district's combined net position from Governmental activities was $607,998 on June 30, 2016. This was an increase of $702,028 from the prior year.

	Total 2016	Total 2015
Assets		
Current and other assets	$ 2,931,328	$ 2,856,146
Capital assets	5,777,044	5,980,713
Total assets	8,708,372	8,836,859
Deferred Outflows of Resources		
Total deferred outflows of resources	961,499	734,377
Liabilities		
Current liabilities	217,213	223,531
Long-Term liabilities	6,727,745	6,408,666
Total liabilities	6,944,958	6,632,197
Deferred Inflows of Resources		
Total deferred inflows of resources	2,116,915	3,033,069
Net Position		
Net investment in capital assets	4,661,905	4,314,754
Restricted	460,089	464,651
Unrestricted	(4,513,996)	(4,873,435)
Total net position	$ 607,998	$ (94,030)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

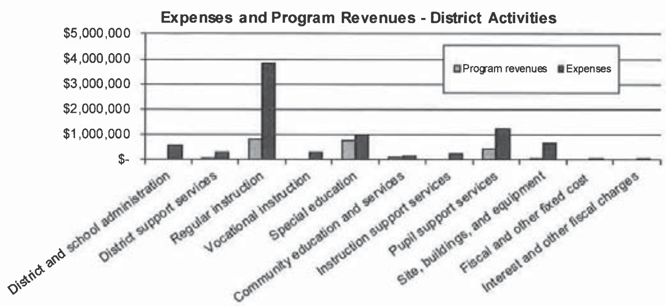
District's Revenue. The District's total revenues were $9,070,811 for the year ended June 30, 2016; compared to $9,076,276 for the year ended June 30, 2015. State sources accounted for 58% (compared to 59% the previous year) of the total revenue. Local property taxes (levies) accounted for 19% percent (compared to 17% the previous year) of the total revenue, with the remaining revenue coming from other sources.

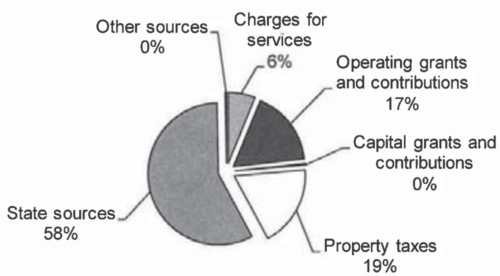
A condensed version of the Statement of Activities follows:

	Total 2016	Total 2015
Revenue		
Program revenues:		
Charges for services	$ 556,906	$ 500,631
Operating grants and contributions	1,552,814	1,462,967
Capital grants and contributions	34,618	69,419
General revenues:		
Property taxes	1,674,550	1,583,357
State sources	5,216,279	5,313,628
Investment earnings	3,711	1,005
Other sources	31,933	145,269
Total revenues	9,070,811	9,076,276
Expenses		
District and school administration	577,034	554,415
District support services	318,323	380,197
Regular instruction	3,827,533	3,915,827
Vocational instruction	310,508	20,584
Special education	987,661	1,125,007
Community education and services	144,552	162,600
Instruction support services	225,259	250,543
Pupil support services	1,230,085	1,181,537
Site, buildings, and equipment	690,482	765,158
Fiscal and other fixed cost programs	43,976	41,881
Interest and other fiscal charges	13,370	15,788
Total expenses	8,368,783	8,413,537
Change in net position	702,028	662,739
Net position, beginning of year	(94,030)	(756,769)
Net position, end of year	$ 607,998	$ (94,030)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Below are specific graphs that provide comparisons of the district activities direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.





FUND BASIS FINANCIAL ANALYSIS

Financial Analysis of the District's Funds

The financial performance of the District as a school is reflected in its governmental funds as well. As the District completed the year, its Governmental Funds reported a combined fund balance of $1,256,168.

The District has experienced a decline in enrollment. Enrollment is expected to continue to decline.

History of enrollment measured by adjusted average daily membership (ADM):

Fiscal Year	ADM	% Change
2007	893.74	
2008	836.97	-6.4%
2009	831.54	-0.6%
2010	803.03	-3.4%
2011	797.57	-0.7%
2012	776.38	-2.7%
2013	772.52	-0.5%
2014	758.39	-1.8%
2015	757.79	-0.1%
2016	710.93	-6.2%

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

Total General Fund Revenues decreased by $54,352 from the previous year primarily from state sources. 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. Other state-authorized revenue includes excess levy referendum and the property tax shift also involves an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net revenue change.

Local property taxes are impacted by the state provided funds for school property tax relief. This relief was provided in two principle ways: 1) removal of the general education revenue property tax via a funding model of greater state aid; and 2) roll in of additional aid for referendum revenue into the basis formula for general education revenue.

FUND BASIS FINANCIAL ANALYSIS (Continued)

General fund revenues were as follows:

	2016	2015	Increase/ (Decrease)
Local property tax levies	$ 1,063,339	$ 979,230	$ 84,109
Other local and county sources	279,058	274,990	4,068
State sources	6,332,789	6,471,859	(139,070)
Federal sources	141,271	146,477	(5,206)
Investment income	2,752	1,005	1,747
Total General Fund Revenues	$ 7,819,209	$ 7,873,561	$ (54,352)

General fund expenditures were as follows:

	2016	2015	Increase/ (Decrease)
District and school administration	$ 576,315	$ 562,491	$ 13,824
District support services	335,331	396,082	(60,751)
Regular instruction	3,572,584	3,864,139	(291,555)
Vocational instruction	299,057	23,574	275,483
Special education	979,228	1,144,876	(165,648)
Instructional support services	225,582	245,923	(20,341)
Pupil support services	781,391	773,304	8,087
Site, buildings, and equipment	732,546	754,667	(22,121)
Fiscal and other fixed cost programs	43,526	41,431	2,095
Total General Fund Expenditures	$ 7,545,560	$ 7,806,487	$ (260,927)

The total General Fund balance on June 30, 2016, is $1,083,525 compared to $809,876 on June 30, 2015 (increase of $273,649). Of the total amount, certain amounts are nonspendable, restricted, or assigned – leaving an amount of $644,774 in the Unassigned General Fund Balance.

FUND BASIS FINANCIAL ANALYSIS (Continued)

Food Service Fund. The Food Service Fund accounts for the activities related to providing child nutrition services to support K-12 academic programs. The fund operates with the goal that revenues exceed expenditures on day-to-day school breakfast and lunch operations so that the excess can be used to systematically replace and upgrade kitchen equipment. By operating in this manner, the child nutrition services program is self-supporting and does not rely upon resources from K-12 instruction programs other than for use of school facilities.

The Food Service Fund Balance decreased by $35,872. On June 30, 2016 the fund balance was $3,542; compared to the previous year's balance of $39,414.

The Food Service revenue for 2015-2016 totaled $409,430 compared to $359,340 the previous year – an increase of $50,090 primarily due to an increase in A'viands Catering food sales.

The Food Service expenditures for 2015-2016 totaled $445,302 compared to $408,441 the previous year – a increase in expenditures of $36,861 primarily due to an increase in ala carte expenditures.

Community Service Fund. The Community Service Fund accounts for the activities related to providing education and recreation programs for Pre-Kindergarten and Post-Grade 12 students. The fund operates on the goal of breaking even on a yearly basis so that is does not rely upon resources from K-12 instruction programs other than for use of school facilities.

The Community Service Fund Balance increased by $30,586 during fiscal 2016.

Community Service Fund revenues for 2015-2016 totaled $178,538 compared to $166,028 the previous year - an increase $12,510. Stable enrollment continues in the School-Aged Childcare (SAC) program which continues to supplement revenue.

Community Service Fund expenditures for 2015-2016 totaled $147,952 compared to $164,222 the previous year. This was a decrease in expenditures of $16,270 due to the closely monitoring the payment of employee stipends and the open ECFE position.

Debt Service Funds. The Debt Service funds exist to service the principal and interest on long-term debt issued by the District to construct school facilities or acquire school equipment. Annual levies will provide revenue at a rate of 105% or pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payment can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

The Debt Service Fund Balance is $118,818 as of June 30, 2016. This fund balance along with the 2015-2016 levy payable in 2017 and future state aid for debt service is sufficient to make pending principal and interest payments.

FUND BASIS FINANCIAL ANALYSIS (Continued)

Debt Service Fund. (Continued)

The Debt Service Fund Balance increased by $5,912 in 2015-2016. As debt is retired, these fund balances should become smaller on a year-to-year basis because a lower levy will be necessary to service remaining debt.

Fiduciary Funds. Private purpose trust (scholarship trust) fund is ISD #203's fiduciary funds. The net position of the scholarship trust are $60,202 (compared to $73,070 in FY15).

GENERAL FUND BUDGETARY HIGHLIGHTS

The District provided a final Revised 2015-2016 Budget in February of 2016. The Revised FY16 Budget stated revenue sources being equal to the Original FY16 Budget.

The Actual FY16 revenue was $338,359 more than the Revised Budgeted Revenue. The budget to actual difference in state sources was primarily due to higher than anticipated state aid and special education funding. In addition, the 2014-2015 audit noted a finding that twenty-nine activity accounts that did not meet the definition of Student Activities. In compliance with the Corrective Action Plan for this finding, these accounts were moved to the General Fund and placed under Board control and were not budgeted for 2015-2016.

The final Revised FY16 Budget stated expenditures were $238,996 less than the Original FY16 Budget. The Actual expenditures were $28,682 less than projected due to the District's commitment to fiscal responsibility.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the District had invested $5,777,044 (net of accumulated depreciation) in a broad range of capital assets including school buildings, athletic facilities, technology equipment, and other types of equipment. Capital assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). The capitalization threshold is $2,500. Donated capital assets are recorded as their estimated fair value at the date of donation. 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 AND DEBT ADMINISTRATION (Continued)

Capital assets are recorded in the District-wide financial statements, but are not reported in the Fund financial statements.

	Total	
	2016	2015
Land	$ 2,100	$ 2,100
Land improvements	166,952	176,370
Buildings	5,384,225	5,555,289
Machinery and equipment	223,767	246,954
Total	$ 5,777,044	$ 5,980,713

Long Term Liabilities. As of June 30, 2016, the District had $1,122,560 in bonds and capital lease payable outstanding. The District also had $419,534 in post separation and severance benefits payable at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2016, is as follows:

	Total	
	2016	2015
School Bond Refinancing	$ 1,110,000	$ 1,660,000
Capital Lease	12,560	17,091
Other Postemployment Benefits Payable	112,120	82,550
Compensated Absences Payable	307,414	404,078
Net Pension Liability	5,185,651	4,244,947
Total	$ 6,727,745	$ 6,408,666

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating referendum, the District is dependent on the state of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The District is continuing to improve efficiencies and control spending to try to maintain a balanced budget. In the spring of 2015, the District aligned expenditures with revenues for the 2016-2017 school year in the amount of $275,000. Through the support of referendum dollars that have been voter-approved, the District will continue to maintain a stable future. The District will carry on its long-standing commitment to academic excellence and educational opportunity for students within a framework of fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office, Independent School District #203, 9 Sixth Ave. SE, Hayfield, Minnesota, 55940.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2016
With Comparative Data As of June 30, 2015

	Governmental Activities 2016	2015
Assets		
Cash and cash equivalents	$ 1,495,263	$ 1,169,667
Taxes receivable	695,593	780,344
Other receivables	28,847	13,180
Due from other governmental units	638,733	826,011
Due from other funds	11,942	
Inventory	5,334	5,139
Prepaid expenses	55,616	61,805
Capital Assets:		
Non-depreciable	2,100	2,100
Depreciable, Net	5,774,944	5,978,613
TOTAL ASSETS	8,708,372	8,836,859
Deferred Outflows of Resources		
Deferred outflow from pension activities	954,078	723,245
Loss on bond refunding	7,421	11,132
TOTAL DEFERRED OUTFLOWS OF RESOURCES	961,499	734,377
Liabilities		
Accounts payable	52,388	90,223
Due to other Minnesota school districts	30,627	
Due to other funds	11,942	
Salaries and accrued liabilities	98,594	106,260
Accrued interest payable	3,356	4,502
Unearned revenue	20,306	22,546
Long-Term Liabilities:		
Due within one year	555,282	556,856
Due in more than one year	986,812	1,606,863
Net pension liability	5,185,651	4,244,947
TOTAL LIABILITIES	6,944,958	6,632,197
Deferred Inflows of Resources		
Deferred inflows from pension activities	682,089	1,404,518
Property taxes levied for subsequent year	1,434,826	1,628,551
TOTAL DEFERRED INFLOWS OF RESOUCES	2,116,915	3,033,069
Net Position		
Net investment in capital assets	4,661,905	4,314,754
Restricted		
Operating capital purposes	124,008	157,987
State-Mandated restrictions	148,243	98,452
Food service		39,414
Community service	62,862	50,536
Debt service	124,976	118,262
Unrestricted	(4,513,996)	(4,873,435)
TOTAL NET POSITION	$ 607,998	$ (94,030)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
With Comparative Data As of June 30, 2015

	2016			
		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
District and school administration	$ 577,034	$	$	$
District support services	318,323			34,618
Regular instruction	3,827,533	250,057	585,254	
Vocational instruction	310,508			
Special education	987,661	1,824	752,489	
Community service	144,552	83,072	21,193	
Instruction support services	225,259			
Pupil support services	1,230,085	219,902	193,878	
Site, buildings, and equipment	690,482	2,051		
Fiscal and other fixed cost programs	43,976			
Interest and other fiscal charges	13,370			
Total governmental activities	$ 8,368,783	$ 556,906	$ 1,552,814	$ 34,618

General Revenues:
Property taxes levied for:
General purposes
Community Service
Debt Service
State aid not restricted to specific purposes
Miscellaneous
Investment income
Total general revenues and transfers

Change in net position

Net Position - Beginning

Net Position - Ending

See Notes to Financial Statements

2016	2015
Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Total Governmental Activities	Total Governmental Activities
$ (577,034)	$ (554,415)
(283,705)	(310,778)
(2,992,222)	(3,180,198)
(310,508)	(20,532)
(233,348)	(356,982)
(40,287)	(67,414)
(225,259)	(250,543)
(816,305)	(817,076)
(688,431)	(764,913)
(43,976)	(41,881)
(13,370)	(15,788)
(6,224,445)	(6,380,520)
1,063,143	980,952
70,732	67,975
540,675	534,430
5,216,279	5,313,628
31,933	145,269
3,711	1,005
6,926,473	7,043,259
702,028	662,739
(94,030)	(756,769)
$ 607,998	$ (94,030)

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016
With Comparative Data As of June 30, 2015

	General	Food Service	Community Service
Assets			
Cash and cash equivalents	$ 994,390	$	$ 81,678
Current property taxes receivable	382,086		33,783
Delinquent property taxes receivable	15,809		1,154
Accounts receivable	1,744	17,353	9,750
Due from other Minnesota school districts			
Due from other funds	11,942		
Due from Minnesota Department of Education	585,213		2,706
Due from Federal through Minnesota Department of Education	48,235		
Inventory		5,334	
Prepaid expenses	55,616		
TOTAL ASSETS	$ 2,095,035	$ 22,687	$ 129,071
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities			
Accounts payable	$ 51,037	$ 422	$ 929
Salaries and accrued liabilities payable	98,594		
Due to other Governmental units			
Due to other funds		11,942	
Due to other Minnesota school districts	30,627		
Unearned revenue	13,525	6,781	
TOTAL LIABILITIES	193,783	19,145	929
Deferred Inflows of Resources			
Unavailable revenue:			
Taxes levied for subsequent year	801,918		76,705
Delinquent property taxes	15,809		1,154
TOTAL DEFERRED INFLOWS OF RESOURCES	817,727		77,859
Fund Balances			
Nonspendable			
Inventory		5,334	
Prepaid items	55,616		
Restricted for:			
Deferred maintenance	54,726		
Gifted and talented	18,767		
Health and safety	49,965		
Operating capital	124,008		
Achievement and integration	1,824		
Safe schools	22,961		
Community education			61,708
Early childhood and family education			(12,053)
School readiness			15,124
Food service			
Debt service			
Assigned			
Wellness Program	3,868		
Student activities	107,016		
Unassigned	644,774	(1,792)	(14,496)
TOTAL FUND BALANCES	1,083,525	3,542	50,283
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 2,095,035	$ 22,687	$ 129,071

See Notes to Financial Statements

	Total Governmental Funds	
Debt Service	2016	2015
$ 419,195	$ 1,495,263	$ 1,169,667
253,247	669,116	753,671
9,514	26,477	26,673
	28,847	13,180
		19,257
	11,942	
2,579	590,498	803,058
	48,235	3,696
	5,334	5,139
	55,616	61,805
$ 684,535	$ 2,931,328	$ 2,856,146
$	$ 52,388	$ 74,660
	98,594	106,260
		15,563
	11,942	
	30,627	
	20,306	22,546
	213,857	219,029
556,203	1,434,826	1,628,551
9,514	26,477	26,673
565,717	1,461,303	1,655,224
	5,334	5,139
	55,616	61,805
	54,726	41,367
	18,767	13,466
	49,965	20,658
	124,008	157,987
	1,824	
	22,961	22,961
	61,708	49,375
	(12,053)	(19,690)
	15,124	(400)
		34,275
118,818	118,818	112,906
	3,868	3,868
	107,016	110,038
	628,486	368,138
118,818	1,256,168	981,893
$ 684,535	$ 2,931,328	$ 2,856,146

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

	General	Food Service	Community Service
Revenues			
Local sources:			
Property tax levies	$ 1,063,339	$	$ 70,732
Other local and county sources	279,058		83,072
Investment income	2,752	108	160
State sources	6,332,789	22,078	24,574
Federal sources	141,271	170,800	
Sales and other conversions of assets		216,444	
TOTAL REVENUES	7,819,209	409,430	178,538
Expenditures			
District and school administration	576,315		
District support services	335,331		
Regular instruction	3,572,584		
Vocational instruction	299,057		
Special education	979,228		
Instructional support services	225,582		
Pupil support services	781,391	445,302	
Site, buildings, and equipment	732,546		
Fiscal and other fixed cost programs	43,526		
Community service			147,952
TOTAL EXPENDITURES	7,545,560	445,302	147,952
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	273,649	(35,872)	30,586
Other Financing Sources (Uses)			
Activity fund transferred to general fund			
Sale of equipment			
NET CHANGE IN FUND BALANCES	273,649	(35,872)	30,586
FUND BALANCE - BEGINNING	809,876	39,414	19,697
FUND BALANCE - ENDING	$ 1,083,525	$ 3,542	$ 50,283

See Notes to Financial Statements

	Total Governmental Funds	
Debt Service	2016	2015
$ 540,675	$ 1,674,746	$ 1,581,635
	362,130	355,074
691	3,711	1,005
25,801	6,405,242	6,535,175
	312,071	307,295
	216,444	174,694
567,167	8,974,344	8,954,878
	576,315	562,491
	335,331	396,082
	3,572,584	3,864,139
	299,057	23,574
	979,228	1,144,876
	225,582	245,923
	1,226,693	1,181,745
	732,546	754,667
561,255	604,781	599,866
	147,952	164,222
561,255	8,700,069	8,937,585
5,912	274,275	17,293
		108,719
		322
5,912	274,275	126,334
112,906	981,893	855,559
$ 118,818	$ 1,256,168	$ 981,893

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
RECONCILIATION OF NET POSITION IN THE DISTRICT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES IN THE FUND BASIS FINANCIAL STATEMENTS
June 30, 2016

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

Total governmental fund balances (pages 16 and 17)		$ 1,256,168
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	$ 10,992,019	
Less: Accumulated depreciation	5,214,975	
		5,777,044
Other long-term assets not available soon enough to pay for current-period expenditures and, therefore, are unavailable in the funds:		
Delinquent property taxes		26,477
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	$ (1,110,000)	
Loss on bond refunding	7,421	
Net pension liability	(4,913,662)	
Obligations under capital leases	(12,560)	
Compensated absences	(307,414)	
Other post-employment benefits payable	(112,120)	
Accrued interest	(3,356)	
		(6,451,691)
Net position of governmental activities (page 13)		$ 607,998

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds (pages 18 and 19)		$ 274,275
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 31,559	
Depreciation expense	(235,228)	
		(203,669)
Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Delinquent property taxes		(196)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		96,664
OPEB costs are recognized as expenditures in the fund statements, but are deferred and amortized in the government-wide statements resulting in a net difference		(29,570)
Bond Proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal retirement on long-term debt	$ 550,000	
Amortization of loss on bond refunding	(3,711)	
Net pension liability	12,558	
Change in accrued interest	1,146	
Change in capital lease	4,531	
		564,524
Change in net position of governmental activities (pages 14 and 15)		$ 702,028

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

	Budgeted Amounts		2016	Over (Under)	2015
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 1,080,053	$ 1,080,053	$ 1,063,339	$ (16,714)	$ 979,230
Other local and county sources	95,932	95,932	279,058	183,126	274,990
Investment income	700	700	2,752	2,052	1,005
State sources	6,153,928	6,153,928	6,332,789	178,861	6,471,859
Federal sources	150,237	150,237	141,271	(8,966)	146,477
TOTAL REVENUES	7,480,850	7,480,850	7,819,209	338,359	7,873,561
Expenditures					
District and school administration	586,805	593,415	576,315	(17,100)	562,491
District support services	393,581	367,110	335,331	(31,779)	396,082
Regular instruction	3,701,639	3,482,634	3,572,584	89,950	3,864,139
Vocational instruction	124,824	279,625	299,057	19,432	23,574
Special education	1,146,904	970,851	979,228	8,377	1,144,876
Instructional support services	239,436	228,504	225,582	(2,922)	245,923
Pupil support services	804,557	805,659	781,391	(24,268)	773,304
Site, buildings, and equipment	769,142	801,444	732,546	(68,898)	754,667
Fiscal and other fixed cost programs	46,350	45,000	43,526	(1,474)	41,431
TOTAL EXPENDITURES	7,813,238	7,574,242	7,545,560	(28,682)	7,806,487
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(332,388)	(93,392)	273,649	367,041	67,074
Other Financing Sources (Uses)					
Activity fund transferred to general fund					108,719
Sale of equipment					322
NET CHANGE IN FUND BALANCE	(332,388)	(93,392)	273,649	367,041	176,115
FUND BALANCE - BEGINNING	809,876	809,876	809,876		633,761
FUND BALANCE - ENDING	$ 477,488	$ 716,484	$ 1,083,525	$ 367,041	$ 809,876

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE FUND
For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

	Budgeted Amounts		2016	Over (Under)	2015
	Original	Final	Actual	Final Budget	Actual
Revenues					
State sources	$ 17,700	$ 17,700	$ 22,078	$ 4,378	$ 23,828
Federal sources	132,000	132,000	170,800	38,800	160,818
Investment income			108	108	
Sales and other conversions of assets	155,682	155,682	216,444	60,762	174,694
TOTAL REVENUES	305,382	305,382	409,430	104,048	359,340
Expenditures					
Pupil support services	404,441	404,441	445,302	40,861	408,441
NET CHANGE IN FUND BALANCES	(99,059)	(99,059)	(35,872)	63,187	(49,101)
FUND BALANCES - BEGINNING	39,414	39,414	39,414		88,515
FUND BALANCES - ENDING	$ (59,645)	$ (59,645)	$ 3,542	$ 63,187	$ 39,414

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

	Budgeted Amounts		2016	Over (Under)	2015
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 77,634	$ 77,634	$ 70,732	$ (6,902)	$ 67,975
Other local and county sources	85,654	85,654	83,072	(2,582)	80,084
Investment income			160	160	
State sources	21,581	21,581	24,574	2,993	17,969
TOTAL REVENUES	184,869	184,869	178,538	(6,331)	166,028
Expenditures					
Community services	149,222	149,222	147,952	(1,270)	164,222
NET CHANGE IN FUND BALANCES	35,647	35,647	30,586	(5,061)	1,806
FUND BALANCES - BEGINNING	19,697	19,697	19,697		17,891
FUND BALANCES - ENDING	$ 55,344	$ 55,344	$ 50,283	$ (5,061)	$ 19,697

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2016

		Private Purpose Trust
		Scholarship
ASSETS		
Cash and cash equivalents	$	11,561
Investments		48,641
TOTAL ASSETS	$	60,202
NET POSITION	$	60,202

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2016

		Private Purpose Trust
		Scholarship
Additions		
Other local and county sources	$	6,292
Earnings on investments		660
Total Additions		6,952
Deductions		
Scholarships paid out		19,820
Total Deductions		19,820
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES		(12,868)
NET POSITION - BEGINNING		73,070
NET POSITION - ENDING	$	60,202

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Independent School District #203 was formed and operates pursuant to applicable Minnesota laws and statutes.

The governing body consists of a seven-member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments. The following is a summary of the more significant accounting policies:

Financial Reporting Entity

Independent School District #203 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. Based on the aforementioned criteria, the District has no component units.

Basic Financial Statement Presentation

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.* Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter-fund activity has been removed from the District-wide financial statements.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. 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. State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Governmental fund types are accounted for using the modified accrual basis of accounting. Under this method revenues are recognized when susceptible to accrual, i.e. both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual are property taxes, state aids, fees, and interest. For this purpose, the District considers all revenues to be available if they are collected within 60 days after the end of the current period.

Expenditures are generally recognized using the modified accrual basis of accounting when a related fund liability is incurred. Exceptions to this rule include (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued, and (2) principal and interest on general long-term debt which is recognized when due.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes are recognized in the year for which the tax is levied. Revenue form grants and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements including timing requirements, which specify the year in when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met and recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

Description of Funds

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues and expenditures. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Description of Funds (continued)

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources and transactions except those required to be accounted for in other funds.

The *food service fund* accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

The *community service fund* accounts for the resources designated for programs other than those for elementary and secondary students.

The *debt service fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The District reports the following fiduciary funds:

The *Private-Purpose Trust Fund* is used to account for trust arrangements under which the income benefits individuals. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donor.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

Budgets and Budgetary Accounting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Building Construction and Debt Service Funds. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Cash and Investments

Except where otherwise required, the District maintains all deposits in bank accounts in the name of the District. These deposits are invested on a short-term basis with interest income allocated to each fund based upon their relative account balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and temporary cash investments, which is under the management of the District. Investments consist primarily of nonparticipating certificates of deposit recorded at cost, which approximates market.

The District has designated cash and cash equivalents as demand deposits and all investments with an original maturity of three months or less.

Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

Use of Estimates

The preparation of financial statements in conformity with United State generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section of deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The District has one item that will qualifies for reporting as this element – loss on bond refunding, which is being amortized over the life of the bonds.

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate financial statement element, 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 items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year end) under the modified accrual basis of accounting.

Unearned Revenue

Unearned revenues are those in which resources are received by the district before it has a legal claim to them. The District has reported unearned revenues for fees collected for student meals not used.

1. Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are recorded using the consumption method of accounting and consist of food and commodities on hand at June 30, 2016. The food is recorded at the invoice cost. The food inventories are valued using the latest invoice cost, which approximates FIFO inventory method. Surplus commodities are stated at standardized commodities cost as determined by the Department of Agriculture.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. 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. Currently, the mandated tax shift recognizes $63,481 of the property tax levy collectible in 2016 as revenue to the District is fiscal year 2015-2016. The remaining portion of the taxes collectible in 2016 is recorded as deferred inflows of resources.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred inflows of resources because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2016, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

Financial instruments which expose the District to a concentration of credit risk consist primarily of cash and investments. Credit risk associated with cash and investments are discussed in Note 3.

Capital Assets

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

Capital assets are recorded in the District-wide financial statement, but are not reported in the Fund financial statements. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Deprecation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life in Years
Land improvements and buildings	25 - 50
Equipment	5 - 15

Capital assets not being depreciated include land.

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

Long-term Obligations

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

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.

Compensated Absences Payable

Eligible teachers with at least 15 years of service receive severance for up to 150 accumulated sick days. Severance is calculated by multiplying the number of accumulated sick days by 75% the employee's current per diem rate of pay. The total severance received cannot exceed $30,000. The payment is reduced by any 403(b) contributions the District made for the employees.

Eligible administrators with at least 10 years of service receive severance for up to 150 accumulated sick days. Severance is calculated by multiplying the number of accumulated sick days by 75% of the employees current per diem rate of pay.

1. Summary of Significant Accounting Policies (Continued)

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data has not been presented since their inclusion would not provide meaningful comparisons. Certain amounts in the June 30, 2015 totals column have been reclassified to conform with the current year presentation.

Pension

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

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 merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund (DTRFA) in 2015. Additional information can be found in Note 9. Additional information can be found in Note 9.

2. Stewardship and Accountability

Excess of expenditures over appropriations at the individual fund level during 2016 is as follows:

	Budget	Expenditures	Excess
Food Service Fund	$ 404,441	$ 445,302	$ 40,861

Excess expenditures were the result of planned process.

3. Cash and Investments

Summary of Cash and Investments

As of June 30, 2016, the District's cash and cash equivalents consisted of the following items, all of which are held in an internal investment pool:

Deposits	$ 46,175
Cash on Hand	5,000
Minnesota School District Liquid Asset Fund (MSDLAF)	1,504,290
Total Cash and Investments	1,555,465
Less: Fiduciary funds cash and cash equivalents	60,202
Total Cash and cash equivalents reported on the Statement of Net Position	$ 1,495,263

Investments Authorized by Minnesota Statues

The District is authorized by Minnesota Statues to invest idle funds as follows:

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

At June 30, 2016, the District had the following investments:

	Amortized Cost
Minnesota School Liquid Asset Fund (MSDLAF)	$ 1,504,290

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities 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 values of the pool shares.

Credit Risk – The MSDLAF pool is rated AAA by the Standard & Poor's.

3. Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's policy for custodial credit risk follows Minnesota Statutes for deposits. The District's deposits are entirely covered by federal depository insurance or by collateral held by the District's custodial banks in the District's name.

Minnesota Statues require that all District deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds. Authorized collateral includes certain state of local government obligations and legal investments. Minnesota Statues also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Credit Risk

The District's investment policy limits its investment choices to those allowed by Minnesota Statutes.

Concentration of Credit Risk

The District places limits on the amount the District may invest in the investment types stated above. The District's policy limits investment in items f) and g) to no more than 50%, and no more than 90% in interest bearing accounts, CD's, or other investments constituting direct obligations of any bank.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Fair Value Measurements

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instrument fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Cash and Investments (Continued)

Fair Value Measurement (continued)

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

There were no assets measured at fair value on a recurring basis noted at the District.

4. Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2016 are as follows:

Fund	Minnesota Department of Education	Federal Government Through MDE	Total
General	$ 585,213	$ 48,235	$ 633,448
Community Service	2,706		2,706
Debt Service	2,579		2,579
	$ 590,498	$ 48,235	$ 638,733

5. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 2,100	$	$	$ 2,100
Total capital assets, not being depreciated	2,100			2,100
Capital assets, being depreciated:				
Buildings	9,886,306	3,285		9,889,591
Land improvements	273,176	4,350		277,526
Equipment	798,878	23,924		822,802
Total capital assets, being depreciated	10,958,360	31,559		10,989,919
Less accumulated depreciation for:				
Buildings	4,331,017	174,349		4,505,366
Land improvements	96,806	13,768		110,574
Equipment	551,924	47,111		599,035
Total accumulated depreciation	4,979,747	235,228		5,214,975
Total capital assets, being depreciated, net	5,978,613	(203,669)		5,774,944
Governmental activities capital assets, net	$ 5,980,713	$ (203,669)	$	$ 5,777,044

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	$ 725
Regular instruction	208,688
Vocational instruction	2,062
Special education instruction	142
Instructional support services	1,556
Pupil support services	6,186
Site, buildings and equipment	15,869
Total depreciation expense - governmental activities	$ 235,228

6. Long-Term Liabilities

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the following schedules. General Obligation Bonds are serviced by the Debt Service Fund. They are backed by the full faith and credit of the District. The capital lease and compensated absences payable are serviced by the General Fund.

A summary of interest rates, maturities and June 30, 2016 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance June 30, 2016
General Obligation Bonds:			
School Building Refinancing - Bond Series 2012	0.35 - 0.80%	2018	$ 1,110,000
Other Liabilities:			
Capital Lease		2019	12,560
Other Postemployment Benefits Payable			112,120
Compensated Absences Payable			307,414
Net Pension Liability			5,185,651
Governmental Activities:			$ 6,727,745
Unamortized Loss on Bond Refunding			(7,421)
Long-term Liabilities			$ 6,720,324

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable:					
General Obligation Bonds:					
School Building Refinancing - Bond Series 2012B	$ 1,660,000	$	$ 550,000	$ 1,110,000	$ 550,000
Other Liabilities:					
Capital Lease	17,091		4,531	12,560	5,282
Other Postemployment Benefits Payable	82,550	131,100	101,530	112,120	
Compensated Absences Payable	404,078	35,387	132,051	307,414	
Net Pension Liability	4,244,947	940,704		5,185,651	
Governmental Activities	6,408,666	1,107,191	788,112	6,727,745	555,282
Unamortized Loss on Bond Refunding	(11,132)		(3,711)	(7,421)	
Long-term Liabilities	$ 6,397,534	$ 1,107,191	$ 784,401	$ 6,720,324	$ 555,282

6. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of June 30, 2016, over the life of the debt, are summarized below:

	General Obligation Bonds		
Years	Principal	Interest	Total
Governmental Activities			
2017	$ 550,000	$ 8,055	$ 558,055
2018	560,000	4,480	564,480
Totals	$ 1,110,000	$ 12,535	$ 1,122,535

The following schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2016:

	Capital Lease
Year Ending June 30,	
2017	$ 6,856
2018	6,856
2019	1,144
Total Minimum Lease Payments	14,856
Less Amounts Representing Interest	2,296
Present Value of Net Minimum Lease Payments	$ 12,560

Payments on the general obligation bonds payable that pertain to the School District's governmental activities are made by the debt service fund. The compensated absences payable liability attributable to the governmental activities will be liquidated primarily by the general fund.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained to due constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Assignment of fund balances can be made by the District Superintendent, Business Manager, or the School Board. Assignments so made are to be reported to the School Board on a monthly basis.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of the unrestricted fund balance when expenditures are made.

The District has a formal minimum fund balance policy for the General Fund Unassigned Fund Balance to be between five and eight percent of the projected annual expenditures.

7. Fund Equity (Continued)

Restriction of fund balance indicates that a portion of the fund balance is legally segregated for a specific future use. The following is a summary of the reserved fund balances for the governmental funds:

Restricted for Deferred Maintenance – Represents unspent aid and levy that can be used for those activities having a useful life of five (5) years or more excluding technological equipment and activities, instructional equipment, and other non-maintenance equipment or materials.

Restricted for Gifted and Talented – Represents general education aid resources to be expended for gifted and talented programs.

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

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

Restricted for Achievement and Integration – Represents unspent resources available from the Achievement and Integration Program.

Restricted for Safe Schools – The fund balance restriction represents accumulated resources available to be expended for safe schools.

Restricted for Community Ed – Represents available resources within the Community Service Fund for enrichment programs for any age level that are not part of the K-12 education program that are not taken for credit or required for graduation.

Restricted for Early Child/Family Ed – Represents available resources within the Community Service Fund whose focus is to improve parenting skills of new and expectant parents, and/or to provide learning experiences for parents and children.

Restricted for School Readiness – Represents the resources available to provide for services for school readiness programs.

Assigned for Wellness Programs – Represents resources set aside for future wellness programs within the District.

8. Commitments and Contingencies

The District participates in a number of federal and state agency assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District does not anticipate any audit adjustments or disallowed program expenditures that would be material in relation to the general purpose financial statements taken as a whole.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide

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

Plan Description

1. General Employees Retirement Fund (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353, and 356.

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

2. Teachers Retirement Fund (TRA)

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

Benefits Provided

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

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

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.

9. Defined Benefit Pension Plans – Statewide (Continued)

1. GERF Benefits

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

2. TRA Benefits

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

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

Tier I:	Step Rate Formula	Coordinated	Step Rate Formula	Basic
	1st ten years if service years prior to 7-1-06	1.2 percent per year	1st ten years	2.2 percent per year
	1st ten years if service years after 7-1-06	1.4 percent per year	All years after	2.7 percent per year
	All other years if service years prior to 7-1-06	1.7 percent per year		
	All years after 7-1-06	1.9 percent per year		

With these provisions:

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

b) 3 percent per year early retirement reduction factors 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

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Tier II: 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 applies. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.4 percent per year.

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 (A-1) 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 five plans, which 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 also 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.

Contributions

1. GERF Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.5%, respectively, of their annual covered salary in 2015. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the Public Employee's Retirement Fund for the year ended June 30, 2016 was $60,627. The District's contributions were equal to the contractually required contributions for each year as set by the state statute.

2. TRA Contributions

Minnesota Statute Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature.

	Ending June 30, 2015		Ending June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

The District contributions for the year ended June 30, 2016 was $258,230, equal to required contributions for each year as set by state statute.

9. Defined Benefit Pension Plans – Statewide (Continued)

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	$	340,207,590
Deduct employer contributions not related to future contribution effort		(704,635)
Deduct TRA's contributions not included in allocation		(435,999)
Total employer contributions	$	339,066,956
Total non-employer contributions		41,587,410
Total Contributions reported in Schedule of Employer and Non-Employer Allocations	$	380,654,366

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.

Merger of Duluth Teacher's Retirement Fund Association (DTRFA)

Legislation enacted in 2014 merged the Duluth Teachers Retirement Fund Association (DTRFA) with TRA effective June 30, 2015. The Beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	6/30/2014 CAFR	Restated
Total Pension Liability (A)	$ 24,901,612,000	$ 25,299,564,000
Plan Fiduciary Net Position (B)	20,293,684,000	20,519,756,000
Net Pension Liability (A-B)	$ 4,607,928,000	$ 4,779,808,000

Pension Costs

1. GERF Pension Costs

At June 30, 2016, the District reported a liability of $725,553 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. The District's proportion was 0.0140% at the end of the measurement period and 0.0166% at the beginning of the measurement period.

GERF benefit provision changes during the measurement period included (1) the merger of the former Minneapolis Employees Retirement Fund division into GERF, effective January 1, 2015, and (2) revisions to Minnesota Statutes to make changes to contribution rates less prescriptive and more flexible.

9. Defined Benefit Pension Plans – Statewide (Continued)

The discount rate used to calculate liabilities for the June 30, 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, 2016, the District recognized pension expense of $66,180 for its proportionate share of GERF's pension expense.

At June 30, 2016, 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
Difference between expected and actual economic experience	$	$ 28,602
Changes in actuarial assumptions	53,577	
Difference between projected and actual investment earnings		89,338
Changes in proportion		91,601
Contributions paid to PERA subsequent to the measurement date	61,229	
Total	$ 114,806	$ 209,541

$61,229 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:

Year ended June 30:	Pension Expense Amount
2017	$ (47,453)
2018	(47,452)
2019	(78,231)
2020	17,172

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of $4,460,098 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0721% at the end of the measurement period and 0.0752% for the beginning of the period.

9. Defined Benefit Pension Plans – Statewide (Continued)

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

District's proportionate share of net pension liability	$	4,460,098
State's proportionate share of the net pension liability associated with the district	$	546,778

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to be 2.0 percent annually with no increases to 2.5 projected. The prior year valuation assumed a 2.5 percent increase commencing on July 1, 2034.

For the year ended June 30, 2016, the District recognized pension expense of $495,168. It also recognized $96,663 as pension expense for the support provided by direct aid.

The TRA actuary has determined the average of the expected remaining lives of all members for the fiscal year 2015 is 5.73. The "Difference Between Expected and Actual Experience" and "Changes in Assumptions" use the amortization period of 5.73 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. The "Changes in Proportion" uses a rounded amortization period of 5.0 years.

At June 30, 2016, 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
Difference between expected and actual economic experience	$ 238,179	$
Changes in actuarial assumptions	342,863	
Difference between projected and actual investment earnings		374,800
Changes in proportion		97,748
Contributions paid to TRA subsequent to the measurement date	258,230	
Total	$ 839,272	$ 472,548

9. Defined Benefit Pension Plans – Statewide (Continued)

$258,230 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 will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2017	$ (38,867)
2018	(38,867)
2019	(38,867)
2020	225,095

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.75% per year	3.0%
Active Member Payroll Growth	3.50% per year	3.5 - 12% based on years of service
Investment Rate of Return	7.90%	8.00%

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

Actuarial assumptions for GERF used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, to June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The actuarial assumptions for TRA used in the June 30, 2015, valuations were based on the results of an actuarial experience study for the period July 1, 2004, to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The long-term expected rate of return on pension plan investments is 7.9% for GERF and 8.0% for TRA. The State Board of Investment, which manages the investments of PERA and TRA, 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.

9. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions (continued)

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.0% for TRA (This is a decrease from the discount rate at the prior measurement date of 8.25%). The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following table 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	6.9%	7.9%	8.9%
District's proportionate share of the GERF net pension liability	$ 1,140,827	$ 725,553	$ 382,600
TRA Discount Rate	7.00%	8.00%	9.00%
District's proportionate share of the TRA net pension liability	$ 6,788,847	$ 4,460,098	$ 2,516,690

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Plan Fiduciary Net Position

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

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

10. Other Post Employment Benefit Plan

The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of July 1, 2014.

Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides health and dental insurance to eligible employees and their spouses through the District's health and dental insurance plan. There are 73 active participants and 11 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publically available financial report.

Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes $300 per month toward the cost of current year premiums for eligible retired plan members and their spouses. The District also contributes an implicit rate subsidy for retired plan members and their spouses. This is due to the actual cost for retirees being higher than the average per person premium for the entire group. For fiscal year 2016, the District contributed $101,530 to the plan.

10. Other Post Employment Benefit Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	$ 132,479
Interest on net OPEB asset	3,302
Adjustment to ARC	(4,681)
Annual OPEB cost	131,100
Contributions during the year	(101,530)
Change in OPEB	29,570
Net OPEB beginning of year	82,550
Net OPEB end of year	$ 112,120

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2016, 2015, and 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
June 30, 2014	$ 133,333	$ 121,885	91.40%	$ 57,078
June 30, 2015	131,441	105,969	80.60%	82,550
June 30, 2016	131,100	101,530	77.44%	112,120

Funding Status and Funding Progress

The required schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b - a) / c)
7/1/2014		$ 1,253,155	$ 1,253,155	0.00%	$3,806,865	32.92%
7/1/2011		1,287,207	1,287,207	0.00%	3,447,657	37.34%

10. Other Post Employment Benefit Plan (Continued)

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the July 1, 2014 actuarial valuation, the entry age normal to actuarial cost method was used. The actuarial assumptions included a 4% discount rate, which is based on the estimated long-term investment yield on the general assets of the District using underlying long-term inflation assumption of 3%. The annual healthcare cost trend rate is 7.5% initially, reduced incrementally to an ultimate rate of 5% after ten years. The unfunded actuarial accrued liability will be amortized as level dollar amount over an open 30-year period beginning in fiscal year 2015.

11. 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; injuries to employees; natural disasters and workers compensation. The District carries commercial insurance. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There was no reduction in insurance coverage during 2016.

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

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

12. Jointly Governed Organization

The Zumbro Education District No. 61-6012 was established by an act of the 1987 Legislature of the State of Minnesota. The primary objective of the District is to provide, by a cooperative effort, comprehensive educational programs and other related services can be effectively operated by its seven member districts. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources. The jointed governed organization's financial statements are audited and available for inspection.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

Schedule of Funding Progress – Other Postemployment Benefits
June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b - a) / c)
7/1/2014		$ 1,253,155	$ 1,253,155	0.00%	$3,806,865	32.92%
7/1/2011		1,287,207	1,287,207	0.00%	3,447,657	37.34%

See Note 10, Other Postemployment Benefit Plan, for more information.

Schedule of Employer Contributions
Year Ended June 30, 2016

Fiscal Year Ended	Annual Required Contribution	Percentage of Annual Required Contributions Recognized
June 30, 2014	$ 133,333	91.4%
June 30, 2015	132,479	80.0%
June 30, 2016	132,479	76.6%

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

Schedule of District's Contributions
GERF Retirement Funds
Last Ten Years

Fiscal Year Ending June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	PERA	$ 57,888	$ 57,888	$	$ 822,165	7.04%
2016	PERA	60,627	60,627		818,081	7.41%
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						

Schedule of District's Contributions
TRA Retirement Funds
Last Ten Years

Fiscal Year Ending June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	TRA	$ 240,393	$ 240,393	$	$ 3,720,794	6.46%
2016	TRA	258,230	258,230		3,443,067	7.50%
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Public Employees PERA
Last Ten Years (presented prospectively)

Fiscal Year Ending June 30	District's Portion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0166%	$ 779,785	$ 822,165	95%	78.7%
2015	0.0140%	725,553	818,081	89%	78.2%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
TRA
Last Ten Years (presented prospectively)

Fiscal Year Ending June 30	District's Portion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0752%	$ 3,465,162	$ 243,799	$ 3,708,961	$ 3,720,794	93%	81.5%
2015	0.0721%	4,460,098	546,778	5,006,876	3,443,067	130%	76.8%
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
COMPARATIVE BALANCE SHEET
GENERAL FUND
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 994,390	$ 608,241
Current property taxes receivable	382,086	460,500
Delinquent property taxes receivable	15,809	15,654
Accounts receivable	1,744	300
Due from other Minnesota school districts		19,257
Due from other funds	11,942	
Due from Minnesota Department of Education	585,213	799,063
Due from Federal through Minnesota Department of Education	48,235	3,696
Prepaid expenses	55,616	61,805
TOTAL ASSETS	$ 2,095,035	$ 1,968,516
Liabilities		
Accounts payable	$ 51,037	$ 19,321
Salaries and accrued liabilities	98,594	106,260
Due to other Governmental units		15,563
Due to other Minnesota school districts	30,627	
Unearned revenue	13,525	13,525
TOTAL LIABILITIES	193,783	154,669
Deferred Inflows of Resources		
Unavailable revenue:		
Property taxes	15,809	15,654
Taxes levied for subsequent year	801,918	988,317
TOTAL DEFERRED INFLOWS OF RESOURCES	817,727	1,003,971
Fund Balances		
Nonspendable		
Prepaid items	55,616	61,805
Restricted for:		
Deferred maintenance	54,726	41,367
Gifted and talented	18,767	13,466
Health and safety	49,965	20,658
Operating capital	124,008	157,987
Achievement and integration	1,824	
Safe schools	22,961	22,961
Assigned		
Wellness Program	3,868	3,868
Student activities	107,016	110,038
Unassigned	644,774	377,726
TOTAL FUND BALANCES	1,083,525	809,876
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 2,095,035	$ 1,968,516

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

	Budgeted Amounts		2016	Over (Under)	2015
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 536,000	$ 536,000	$ 540,675	$ 4,675	$ 534,430
Investment income			691	691	
State sources	22,174	22,174	25,801	3,627	21,519
TOTAL REVENUES	558,174	558,174	567,167	8,993	555,949
Expenditures					
Fiscal and other fixed cost programs	561,255	561,255	561,255		558,435
TOTAL EXPENDITURES	561,255	561,255	561,255		558,435
NET CHANGE IN FUND BALANCES	(3,081)	(3,081)	5,912	8,993	(2,486)
FUND BALANCE - BEGINNING	112,906	112,906	112,906		115,392
FUND BALANCE - ENDING	$ 109,825	$ 109,825	$ 118,818	$ 8,993	$ 112,906

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
SUPPLEMENTAL COST SCHEDULES
For the Year Ended June 30, 2016 and 2015
(Unaudited)

Fiscal year Ended June 30, 2016	2015 - 2016 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 576,315	$ 811
District support services	335,331	472
Regular instruction	3,572,584	5,025
Vocational instruction	299,057	421
Special education	979,228	1,377
Community education and services	147,952	208
Instructional support services	225,582	317
Pupil support services	1,226,693	1,725
Site, buildings, and equipment	732,546	1,030
Fiscal and other fixed cost programs	604,781	851
TOTALS	$ 8,700,069	$ 12,238

2015 - 2016 Adjusted Average Daily Membership - 710.93

Fiscal year Ended June 30, 2015	2014 - 2015 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 562,491	$ 742
District support services	396,082	523
Regular instruction	3,864,139	5,099
Vocational instruction	23,574	31
Special education	1,144,876	1,511
Community education and services	164,222	217
Instructional support services	245,923	325
Pupil support services	1,181,745	1,559
Site, buildings, and equipment	754,667	996
Fiscal and other fixed cost programs	599,866	792
TOTALS	$ 8,937,585	$ 11,794

2014 - 2015 Adjusted Average Daily Membership - 757.79

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

TAX LEVY HISTORY

	15 Pay 16 Fiscal 17	14 Pay 15 Fiscal 16	13 Pay 14 Fiscal 15	12 Pay 13 Fiscal 14	11 Pay 12 Fiscal 13
Tax Levy*					
General	$ 865,399	$ 1,030,060	$ 915,087	$ 1,027,065	$ 996,486
Community Service	76,705	73,719	70,780	70,194	67,358
Debt Redemption (Net)	556,203	563,233	556,346	553,299	601,802
TOTAL TAX LEVY	$ 1,498,307	$ 1,667,012	$ 1,542,213	$ 1,650,558	$ 1,665,646

* The tax levy includes property tax apportionments from Dodge, Mower, and Olmsted Counties aid credits from the State of Minnesota.

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*

To the Board of Education
Independent School District #203
Hayfield, Minnesota 55940

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65. The financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Independent School District #203, Hayfield, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprises the District's basic financial statements and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free of 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*.

To the Board of Education
Independent School District #203
Page Two

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interests, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts, and miscellaneous provisions. Our study included 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 School Districts.* 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.

Other Matter

District's response to internal control and legal compliance findings identified in our audit has been included in the Schedule of Findings and Responses. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Smith, Schafer and Associates, Ltd.

November 21, 2016
Rochester, Minnesota

SMITH•SCHAFER
& ASSOCIATES, LTD.
Certified Public Accountants and Consultants

Members of American Institute of CPAs,
Private Companies Practice Section, Minnesota Society of CPAs

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District #203
Hayfield, Minnesota

We have audited the statements of cash receipts and disbursements of the student activity accounts of Independent School District #203, Hayfield, Minnesota for the year ended June 30, 2016. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with accounting standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the amounts recorded.

Because the financial statements are prepared on the basis of cash receipts and disbursements, revenue is recorded when received rather than when earned, and expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with United States generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statements referred to above presents fairly, in all material respects, the cash balances of the District's Student Activity Funds as of June 30, 2016, and the receipts and disbursements for the year then ended on the basis of accounting describe in the notes to the Student Activity Funds Financial Statement.

Smith, Schafer and Associates, Ltd.

November 21, 2016
Rochester, Minnesota

Rochester Office • 220 South Broadway • Suite 102 • Rochester, MN 55904 • PH (507) 288-3277 • FAX (507) 288-4571
Offices in: Twin Cities and Red Wing • www.smithschafer.com

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
HIGH SCHOOL STUDENT ACTIVITY FUNDS
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended June 30, 2016

Funds	Balance 6/30/2015	Receipts	Disbursements	Balance 6/30/2016
FFA	6,905	26,452	17,349	16,008
FFA Greenhouse	5,187	2,527	695	7,019
SADD	953	1,376	1,385	944
Seniors 2015	597		597	
Seniors 2016	1,290	4,672	3,656	2,306
Seniors 2017	321	5,817	4,452	1,686
Seniors 2018	246	787	1,286	(253)
Seniors 2019	70	1,237	1,302	5
Seniors 2020		85		85
Seniors 2021		96		96
Seniors 2022	177		80	97
Spanish	1,830		620	1,210
Student Council	10,871	4,900	5,666	10,105
TOTAL	$ 28,447	$ 47,949	$ 37,088	$ 39,308

NOTES TO STUDENT ACTIVITY FUNDS FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

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

The accounts of the Student Activity Funds are maintained, and the accompanying financial statements have been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

SMITH•SCHAFER
& ASSOCIATES, LTD.
Certified Public Accountants and Consultants

Members of American Institute of CPAs,
Private Companies Practice Section, Minnesota Society of CPAs

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

To the Board of Education
Independent School District #203
Hayfield, Minnesota 55940

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District #203, Hayfield, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basis financial statements, and have issued our report thereon dated November 21, 2016.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual of Instruction for Manual Activity Funding Accounting for Minnesota School Districts,* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes Section 123.38.

The *Manual for Activity Fund Accounting for Minnesota School Districts* provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicates that, with respect to the items tested, the District complied with the provisions referred to in the preceding paragraph, except as describe in the accompanying schedule of findings and responses.

This report is intended for the information of the School Board, management, and students of the District and the Minnesota Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Schafer and Associates, Ltd.

November 21, 2016
Rochester, Minnesota

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Offices in: Twin Cities and Red Wing • www.smithschafer.com

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STUDENT ACTIVITY FUNDS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016

FINDING 2016-001 **Minnesota Legal Compliance – Negative Balance**

Condition: In accordance with the Manual for Activity Fund Accounting (MAFA), no student activity account will operate with a negative balance at the end of the fiscal year. One student activity account listed on the schedules of activity funds, Seniors 2018, had a negative balance at the end of the fiscal year.

Recommendation: We recommend that the District adopt a policy to comply with MAFA and perform a periodic internal review to ensure compliance is monitored and changes made as necessary.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:
There is no disagreement with the audit finding.

Actions Planned in Response to Findings:
The District will adopt a policy to comply with MAFA, review each activity for negative cash balances, and conduct periodic internal reviews to monitor compliance.

Official Responsible for Ensuring CAP:
Amber Uhlenhake or Stephanie Behrens, Contracted Business Managers, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:
Change will be done immediately.

Plan to Monitor Completion of CAP:
Belinda Selfors, Superintendent, will be monitoring this corrective action plan.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

STUDENT ACTIVITY FUND
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016

FINDING 2015-001 **Inactive Student Activity Accounts**

Condition: In accordance with the Manual for Activity Fund Accounting (MAFA), each student activity account must have activity during the year. Inactive student activity accounts must be closed in a timely manner. One student activity account listed on the schedules of activity funds, had no activity.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:
There is no disagreement with the audit findings.

Actions Planned in Response to Findings:
The District will adopt a policy to comply with MAFA, review each activity for inactivity, and conduct periodic internal reviews to monitor compliance.

Official Responsible for Ensuring CAP:
Amber Uhlenhake or Stephanie Behrens, Contracted Business Managers, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:
December 31, 2015.

Plan to Monitor Completion of CAP:
Belinda Selfors, Superintendent, will be monitoring this corrective action plan.

Current Status:
During our testing, each activity fund had activity during the current fiscal year. Finding did not reoccur in 2016.

Fiscal Compliance Report - 6/30/2016
District: HAYFIELD (203-1)

01 GENERAL FUND

	Audit	UFARS	Audit - UFARS
Total Revenue	$7,819,209	$7,819,212	($3)
Total Expenditures	$7,545,560	$7,545,561	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$55,616	$55,616	$0
Restricted / Reserved:			
4.03 Staff Development	$0	$0	$0
4.05 Deferred Maintenance	$54,726	$54,726	$0
4.06 Health and Safety	$49,965	$49,965	$0
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.09 Alternative Facility Program	$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
4.23 Certain Teacher Programs	$0	$0	$0
4.24 Operating Capital	$124,008	$124,008	$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	$18,767	$18,767	$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	$1,824	$1,824	$0
4.49 Safe School Crime - Crime Levy	$22,961	$22,961	$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
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Committed:			
4.18 Committed for Separation	$0	$0	$0
4.61 Committed Fund Balance	$0	$0	$0
Assigned:			
4.62 Assigned Fund Balance	$110,884	$110,883	$1
Unassigned:			
4.22 Unassigned Fund Balance	$644,774	$644,776	($2)

02 FOOD SERVICES

	Audit	UFARS	Audit - UFARS
Total Revenue	$409,430	$409,430	$0
Total Expenditures	$445,302	$445,303	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$5,334	$5,335	($1)
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	($1,792)	($1,793)	$1

04 COMMUNITY SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$178,538	$178,538	$0
Total Expenditures	$147,952	$147,953	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$61,708	$61,708	$0
4.32 E.C.F.E	($12,053)	($12,053)	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$15,124	$15,124	$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	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	($14,496)	($14,496)	$0

06 BUILDING CONSTRUCTION

	Audit	UFARS	Audit - UFARS
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
4.09 Alternative Facility Program	$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

	Audit	UFARS	Audit - UFARS
Total Revenue	$567,187	$567,187	$0
Total Expenditures	$561,255	$561,255	$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	$118,818	$118,818	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

08 TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$6,962	$6,962	$0
Total Expenditures	$19,820	$19,820	$0
4.22 Unassigned Fund Balance (Net Assets)	$60,202	$60,201	$1

20 INTERNAL SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

25 OPEB REVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

45 OPEB IRREVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

47 OPEB DEBT SERVICE

	Audit	UFARS	Audit - UFARS
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

FORM OF LEGAL OPINION

(See following page)

KNUTSON, FLYNN & DEANS, P.A.
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$13,800,000*
GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2017B
INDEPENDENT SCHOOL DISTRICT NO. 203
(HAYFIELD COMMUNITY SCHOOLS)
DODGE, MOWER AND OLMSTED COUNTIES, MINNESOTA

We have acted as Bond Counsel in connection with the issuance by Independent School District No. 203 (Hayfield Community Schools), Dodge, Mower and Olmsted Counties, Minnesota (the "District"), of its General Obligation School Building Bonds, Series 2017B (the "Bonds"), in the aggregate principal amount of $13,800,000*, bearing a date of original issue of December 7, 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 not been designated as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code relating to the deduction of interest expenses allocable to the Bonds by financial institutions.

DATED at Mendota Heights, Minnesota, this 7th 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. 203 (Hayfield Community Schools), 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 November 15, 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. 203 (Hayfield Community Schools)
Address:	9 Sixth Avenue South East Hayfield, MN 55940
Telephone No.	(507) 477 3235

Dated as of this 7th day of December 2017.

INDEPENDENT SCHOOL DISTRICT NO. 203
HAYFIELD, MINNESOTA

By: ______________________________________
Chair

And: ______________________________________
Clerk

[Signature Page for Continuing Disclosure Certificate]

TERMS OF PROPOSAL

$13,800,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2017B INDEPENDENT SCHOOL DISTRICT NO. 203 (HAYFIELD COMMUNITY SCHOOLS), MINNESOTA

Proposals for the purchase of $13,800,000* General Obligation School Building Bonds, Series 2017B (the "Bonds") of the Independent School District No. 203 (Hayfield Community Schools), 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 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M. Central Time, on November 15, 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 6:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued by the District pursuant to Minnesota Statutes, Chapter 475, and a special election held September 11, 2017, 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 7, 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*
2019	$425,000	2026	$620,000	2033	$775,000
2020	465,000	2027	640,000	2034	810,000
2021	465,000	2028	660,000	2035	840,000
2022	535,000	2029	680,000	2036	875,000
2023	555,000	2030	700,000	2037	910,000
2024	580,000	2031	720,000	2038	1,195,000
2025	600,000	2032	750,000		

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 2019 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, 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.

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 7, 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 $13,662,000 plus accrued interest on the principal sum of $13,800,000* 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 10:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

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

A good faith deposit ("Deposit") in the amount of $276,000 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.

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

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

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. 203
(Hayfield Community Schools), Minnesota

PROPOSAL FORM

The Board of Education **November 15, 2017**
Independent School District No. 203 (Hayfield Community Schools), Minnesota

RE: $13,800,000* General Obligation School Building Bonds, Series 2017B
DATED: December 7, 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 $13,662,000) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2019	________	% due	2026	________	% due	2033
________	% due	2020	________	% due	2027	________	% due	2034
________	% due	2021	________	% due	2028	________	% due	2035
________	% due	2022	________	% due	2029	________	% due	2036
________	% due	2023	________	% due	2030	________	% due	2037
________	% due	2024	________	% due	2031	________	% due	2038
________	% due	2025	________	% due	2032			

* 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 2019 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 $276,000, 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 7, 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 not 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 7, 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 the Independent School District No. 203 (Hayfield Community Schools), Minnesota, on November 15, 2017.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________