

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 26, 2019

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes, (ii) is not an item of tax preference for federal alternative minimum tax purposes, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for federal or Minnesota alternative minimum tax purposes. Interest on the Bonds is included, however, in taxable income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions.

The District will not designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986. See "TAX CONSIDERATIONS" herein.

New Issue

Rating Application Made: S&P Global Ratings

INDEPENDENT SCHOOL DISTRICT NO. 535 (ROCHESTER PUBLIC SCHOOLS), MINNESOTA (Olmsted and Wabasha Counties)

(Minnesota School District Credit Enhancement Program)

\$172,610,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2020A

PROPOSAL OPENING: January 7, 2020, 10:00 A.M., C.T. **CONSIDERATION:** January 7, 2020, 5:30 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$172,610,000* General Obligation School Building Bonds, Series 2020A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475, and a special election held November 5, 2019 by Independent School District No. 535 (Rochester Public 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 Dorsey & Whitney LLP, Minneapolis, Minnesota.

DATE OF BONDS: January 30, 2020

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2021	\$3,435,000	2028	\$8,405,000	2035	\$10,470,000
2022	4,560,000	2029	8,640,000	2036	10,805,000
2023	5,140,000	2030	8,895,000	2037	11,165,000
2024	6,270,000	2031	9,215,000	2038	11,525,000
2025	6,875,000	2032	9,585,000	2039	11,910,000
2026	6,330,000	2033	9,860,000	2040	12,330,000
2027	7,040,000	2034	10,155,000		

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

TERM BONDS: See "Term Bond Option" herein.

INTEREST: August 1, 2020 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2029 and thereafter are subject to call for prior optional redemption on February 1, 2028 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: \$170,883,900.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$3,452,200 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Dorsey & Whitney LLP

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

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

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b) (1), but is subject to revision, amendment and completion in a Final Official Statement.



BUILDING COMMUNITIES. IT'S WHAT WE DO.

info@ehlers-inc.com

1 (800) 552-1171

www.ehlers-inc.com

REPRESENTATIONS

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

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

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

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

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

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

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

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

CLOSING CERTIFICATES

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

TABLE OF CONTENTS

INTRODUCTORY STATEMENT.	1	FINANCIAL STATEMENTS.	A-1
THE BONDS.	1	FORM OF LEGAL OPINION.	B-1
GENERAL.	1	BOOK-ENTRY-ONLY SYSTEM.	C-1
OPTIONAL REDEMPTION.	2	FORM OF CONTINUING DISCLOSURE COVENANTS (EXCERPTS FROM SALE RESOLUTION).	D-1
AUTHORITY; PURPOSE.	2	TERMS OF PROPOSAL.	E-1
ESTIMATED SOURCES AND USES.	2		
SECURITY.	3		
RATING.	3		
STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS.	3		
CONTINUING DISCLOSURE.	4		
LEGAL OPINION.	5		
TAX CONSIDERATIONS.	5		
MUNICIPAL ADVISOR.	8		
MUNICIPAL ADVISOR AFFILIATED COMPANIES.	8		
INDEPENDENT AUDITORS.	9		
RISK FACTORS.	9		
VALUATIONS.	11		
OVERVIEW.	11		
CURRENT PROPERTY VALUATIONS.	12		
2018/19 NET TAX CAPACITY BY CLASSIFICATION.	13		
TREND OF VALUATIONS.	13		
LARGER TAXPAYERS.	14		
DEBT.	15		
DIRECT DEBT.	15		
STATE AID FOR DEBT SERVICE.	15		
SCHEDULE OF BONDED INDEBTEDNESS.	17		
BONDED DEBT LIMIT.	22		
OVERLAPPING DEBT.	22		
DEBT PAYMENT HISTORY.	22		
DEBT RATIOS.	23		
FUTURE FINANCING.	23		
LEVY LIMITS.	23		
TAX RATES, LEVIES AND COLLECTIONS.	24		
TAX LEVIES AND COLLECTIONS.	24		
TAX CAPACITY RATES.	25		
THE ISSUER.	26		
EMPLOYEES.	26		
PENSIONS; UNIONS.	26		
POST EMPLOYMENT BENEFITS.	26		
STUDENT BODY.	27		
SCHOOL BUILDINGS.	28		
FUNDS ON HAND.	29		
LITIGATION.	29		
MUNICIPAL BANKRUPTCY.	29		
SUMMARY GENERAL FUND INFORMATION.	30		
GENERAL INFORMATION.	31		
LOCATION.	31		
LARGER EMPLOYERS.	31		
U.S. CENSUS DATA.	32		
EMPLOYMENT/UNEMPLOYMENT DATA.	32		

ROCHESTER PUBLIC SCHOOLS SCHOOL BOARD

		<u>Term Expires</u>
Don Barlow	Chair	January 2021
Deborah Seelinger	Vice Chair	January 2021
Cathy Nathan	Clerk	January 2023
Mark Schleusner	Treasurer	January 2021
Melissa Amundsen	Member	January 2023
Jean Marvin	Member	January 2023
Julie Workman	Member	January 2023

ADMINISTRATION

Michael Muñoz, Superintendent of Schools

John Carlson, Executive Director of Finance

PROFESSIONAL SERVICES

Dorsey & Whitney LLP, Bond Counsel, Minneapolis, Minnesota

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

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 535 (Rochester Public Schools), Minnesota (the "District") and the issuance of its \$172,610,000* General Obligation School Building Bonds, Series 2020A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the Board of Education on January 7, 2020.

Inquiries may be directed to Ehlers and 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 January 30, 2020. 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, 2020, 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 2021 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, 2029 shall be subject to optional redemption prior to maturity on February 1, 2028 or any date thereafter, at a price of par plus accrued interest.

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

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

AUTHORITY; PURPOSE

The Bonds are being issued by the District, pursuant to Minnesota Statutes, Chapter 475, and a special election held November 5, 2019, at which voters approved the issuance of \$180,900,000 in school building bonds.

Question No. 1 was approved by a vote of 11,754 to 5,215, and authorized the issuance of \$171,000,000 to provide funds for the acquisition and betterment of school sites and facilities, including reconstruction of Bishop and Longfellow elementary schools, construction of a new elementary school and a new middle school, security upgrades at all school buildings, auditorium upgrades at all three high schools, and land acquisition.

Question No. 2 was approved by a vote of 10,122 to 6,828, and authorized the issuance of \$9,500,000 to provide funds for closing of the middle school pools, construction of a swimming pool at Century High School, and upgrades to the existing swimming pool at Mayo High School.

ESTIMATED SOURCES AND USES*

Sources		
Par Amount of Bonds	\$172,610,000	
Reoffering Premium	<u>10,014,820</u>	
Total Sources		\$182,624,820
Uses		
Total Underwriter's Discount (1.000%)	\$1,726,100	
Costs of Issuance	458,236	
Deposit to Project Construction Fund	<u>180,440,484</u>	
Total Uses		\$182,624,820

*Preliminary, subject to change.

SECURITY

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

RATING

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

The District currently has a "AA" underlying rating from S&P and a "Aa2" underlying rating from Moody's Investors Service and will be requesting an underlying rating from S&P on this issue. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgement of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on December 10, 2019 (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 August 6, 2019, for General Obligation State Bonds, Series 2019A, 2019B, 2019C and 2019D, 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 \$15.1 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 \$2.3 billion, with the maximum amount of principal and interest payable in any one month being \$889.3 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 brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the District shall agree to provide certain information to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery, the District shall execute and deliver a Continuing Disclosure Certificate, under which the District will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the District are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

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

Prior continuing disclosure undertakings entered into by the District included language stating that the annual report including audited financial statements and operating data would be filed "as soon as available." Although the District did not always comply with this requirement, the audited financial statements were timely filed within the required 365 days after the end of the fiscal year timeframe as provided for in each undertaking. Except to the extent that the preceding is deemed to be material, the District believes it has not failed to comply in the previous five years in all material respects with its prior undertakings under the Rule. The District has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the District.

LEGAL OPINION

An opinion in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP ("Bond Counsel"), Minneapolis, Minnesota, bond counsel to the District.

TAX CONSIDERATIONS

The following is a summary of certain U.S. federal and Minnesota income tax considerations relating to the purchase, ownership, and disposition of the Bonds. This summary is based on the U.S. Internal Revenue Code of 1986 (the "Code") and the Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service (the "IRS"), all as of the date hereof and all of which are subject to change, possibly with retroactive effect. Any such change could adversely affect the matters discussed below, including the tax exemption of interest on the Bonds. The District has not sought and will not seek any rulings from the IRS regarding the matters discussed below, and there can be no assurance the IRS or a court will not take a contrary position regarding these matters.

Prospective purchasers of Bonds should consult their own tax advisors with respect to applicable federal, state, and local tax rules, and any pending or proposed legislation or regulatory or administrative actions, relating to the Bonds based on their own particular circumstances.

This summary is for general information only and is not intended to constitute a complete analysis of all tax considerations relating to the purchase, ownership, and disposition of Bonds. It does not address the U.S. federal estate and gift tax or any state, local, or non-U.S. tax consequences except with respect to Minnesota income tax to the extent specified herein. This summary is limited to consequences to U.S. holders that purchase the Bonds for cash at original issue and hold the Bonds as "capital assets" (generally, property held for investment).

This discussion does not address all aspects of U.S. federal income or state taxation that may be relevant to particular holders of Bonds in light of their specific circumstances or the tax considerations applicable to holders that may be subject to special income tax rules, such as holders subject to special tax accounting rules under Section 451(b) of the Code; insurance companies, brokers, dealers, or traders in stocks, securities, or currencies or notional principal contracts; foreign corporations subject to the branch profits tax; holders receiving payments in respect to the Bonds through foreign entities; and S corporations, partnerships, or other pass-through entities or investors therein.

For purposes of this discussion, the "issue price" of a maturity of Bonds is the first price at which a substantial amount of Bonds of that maturity is sold for cash to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers.

Tax Exempt Interest

In the opinion of Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes (ii) is not an item of tax preference for federal alternative minimum tax purposes; (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for federal or Minnesota alternative minimum tax purposes. Interest on the Bonds is included, however, in taxable income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions.

The Code establishes certain requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Bond proceeds and the facilities financed or refinanced with such proceeds and restrictions on the investment of Bond proceeds and other amounts. The District has made certain representations and has covenanted to comply with certain restrictions, conditions, and requirements designed to ensure interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or noncompliance with these covenants may cause interest on the Bonds to be included in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Bond Counsel has not independently verified the accuracy of these representations and will not verify the continuing compliance with these covenants. 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 is included in federal gross income or in Minnesota taxable net income.

Original Issue Discount

Bonds may be issued at a discount from their principal amount (any such Bonds being "Discount Bonds"). The excess of the principal amount payable on Bonds of a given maturity over their issue price constitutes "original issue discount" ("OID"). OID that accrues to a holder of a Discount Bond is excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts to the same extent that stated interest on such Discount Bond would be so excluded. The amount of OID that accrues on a Discount Bond is added to the holder's federal and Minnesota tax bases. OID is taxable under the Minnesota franchise tax on corporations and financial institutions.

OID on a Discount Bond generally accrues pursuant to a constant-yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of OID that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Discount Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Discount Bonds, over (2) the amount of stated interest actually payable. For this purpose, the adjusted issue price is determined by adding to the issue price for such Discount Bonds the OID that is treated as having accrued during all prior accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the issue price plus accrued interest and accrued OID, the amount of OID that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Discount Bond. If the excess is greater than the amount of remaining OID, the basis reduction rules for amortizable bond premium may result in taxable gain upon sale or other disposition of the Bonds, even if the Bonds are sold, redeemed or retired for an amount equal to or less than their cost.

It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual and may be deemed to accrue differently than under federal law.

Market Discount

If a Bond is purchased for a cost that is less than the Bond's issue price (plus accrued original issue discount, if any), the purchaser will be treated as having purchased the Bond with market discount (unless a statutory *de minimis* rule applies). Market discount is treated as ordinary income and generally is recognized on the maturity or earlier disposition of the Bond (to the extent that the gain realized does not exceed the accrued market discount on the Bond).

Bond Premium

A holder that acquires a Bond for an amount in excess of its principal amount generally must, from time to time, reduce the holder's federal and Minnesota tax basis for the Bond. Premium generally is amortized for federal income tax purposes and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, holders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes or for purposes of the Minnesota income tax applicable to individuals, estates, or trusts.

Related Tax Considerations

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the Bonds into account in determining the taxability of such benefits.

Section 265(a) of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. In the case of a financial institution, generally, no deduction is allowed under Section 265(b) of the Code for that portion of the holder's interest expense that is allocable to interest on tax-exempt obligations, such as the Bonds, unless the obligations are "qualified tax-exempt obligations". Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchaser of the Bonds. The Bonds are not "qualified tax exempt obligations" for purposes of Section 265(b)(3) of the Code.

The ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds, may affect a holder's federal, state, or local tax liability in some additional circumstances. The nature and extent of these other tax consequences depends upon the particular tax status of the holder and the holder's other items of income or deduction.

Sale or Other Disposition

A holder will generally recognize gain or loss on the sale, exchange, redemption, retirement, or other disposition of a Bond equal to the difference between (i) the amount realized less amounts attributable to any accrued but unpaid stated interest and (ii) the holder's adjusted tax basis in the Bond. The amount realized includes the cash and the fair market value of any property received by the holder in exchange for the Bond. A holder's adjusted tax basis in a Bond generally will be equal to the amount that the holder paid for the Bond, increased by any accrued original issue discount with respect to the Bond and reduced by the amount of any amortized bond premium on the Bond. Except to the extent attributable to market discount (which will be taxable as ordinary income to the extent not previously included in income), any gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holder held the Bond for more than one year. Long-term capital gains recognized by certain non-corporate persons, including individuals, generally are taxable at a reduced rate. The deductibility of capital losses is subject to significant limitations.

Information Reporting and Backup Withholding

Payments of interest on the Bonds (including any allocable bond premium or accrued original issue discount) and proceeds from the sale or other disposition of the Bonds are expected to be reported to the IRS as required under applicable Treasury Regulations. Backup withholding will apply to these payments if the holder fails to provide an accurate taxpayer identification number and certification that it is not subject to backup withholding (generally on an IRS Form W-9) or otherwise fails to comply with the applicable backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. Certain holders are exempt from information reporting. Potential holders should consult their own tax advisors regarding qualification for an exemption and the procedures for obtaining such an exemption.

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. Ehlers makes no representation, warranty or guarantee regarding the accuracy or completeness of the information in this Official Statement, and its assistance in preparing this Official Statement should not be construed as a representation that it has independently verified such information.

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, Colorado, 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, 2019 have been audited by CliftonLarsonAllen LLP, 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 bond 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 United States or State of Minnesota income taxation, retroactive to the date of issuance.

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

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

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

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

Cybersecurity: The District is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the District will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

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	2016/17	2017/18	2018/19
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 \$2,050,000 - 0.50% ² Over \$2,050,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,940,000 - 0.50% ² Over \$1,940,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% ² Over \$1,900,000 - 1.00% ²
Agricultural non-homestead	Land - 1.00% ²	Land - 1.00% ²	Land - 1.00% ²
Seasonal recreational residential	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$115,000 - .75% Over \$115,000 - .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 \$121,000 - .75% Over \$121,000 - .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 \$139,000 - .75% Over \$139,000 - .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

2018/19 Economic Market Value \$15,725,295,907¹

2018/19 Assessor's Estimated Market Value

	Olmsted County	Wabasha County	Total
Real Estate	\$14,303,382,600	\$ 53,663,300	\$14,357,045,900
Personal Property	<u>73,359,400</u>	<u>101,000</u>	<u>73,460,400</u>
Total Valuation	<u>\$14,376,742,000</u>	<u>\$ 53,764,300</u>	<u>\$14,430,506,300</u>

2018/19 Net Tax Capacity

	Olmsted County	Wabasha County	Total
Real Estate	\$165,102,107	\$ 430,622	\$ 165,532,729
Personal Property	<u>1,465,518</u>	<u>2,020</u>	<u>1,467,538</u>
Net Tax Capacity	\$166,567,625	\$ 432,642	\$ 167,000,267
Less: Captured Tax Increment Tax Capacity ²	(2,668,855)	0	(2,668,855)
Power Line Adjustment ³	<u>(14,547)</u>	<u>0</u>	<u>(14,547)</u>
Taxable Net Tax Capacity	<u>\$163,884,223</u>	<u>\$ 432,642</u>	<u>\$ 164,316,865</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 535 (Rochester Public Schools) is about 91.71% 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 \$15,725,295,907.

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

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

2018/19 NET TAX CAPACITY BY CLASSIFICATION

	2018/19 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$ 79,160,838	47.40%
Agricultural	4,375,318	2.62%
Commercial/industrial	56,150,643	33.62%
Public utility	90,643	0.05%
Railroad operating property	74,214	0.04%
Non-homestead residential	25,472,659	15.25%
Commercial & residential seasonal/rec.	208,414	0.12%
Personal property	1,467,538	0.88%
Total	<u>\$167,000,267</u>	<u>100.00%</u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity¹	Taxable Net Tax Capacity²	Percent +/- in Estimated Market Value
2014/15	\$11,098,458,900	\$10,291,742,400	\$125,633,703	\$123,881,124	+3.38%
2015/16	11,491,479,100	10,701,806,400	131,459,291	129,694,842	+3.54%
2016/17	12,499,845,400	11,725,792,300	144,162,823	142,175,153	+8.77%
2017/18	13,373,973,000	12,615,807,500	154,658,997	152,499,020	+6.99%
2018/19	14,430,506,300	13,706,948,300	167,000,267	164,316,865	+7.90%

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

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

LARGER TAXPAYERS

Taxpayer	Type of Property	2018/19 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Mayo Properties Association	Medical/Commercial	\$11,148,503	6.68%
Apache Mall LLC	Commercial	1,083,242	0.65%
Minnesota Energy Resources	Utility	767,984	0.46%
KAH 20 2 nd Avenue LLC	Commercial	707,606	0.42%
Carpenter and Torgerson SSMR LLC	Commercial	565,288	0.34%
Maine Land LLC	Commercial	473,650	0.28%
City of Rochester	Commercial	473,020	0.28%
Olmsted Medical Center	Medical/Commercial	471,230	0.28%
MAR 1 st Avenue SW LLC	Commercial	460,968	0.28%
BGD5 Hotel LLC	Commercial	411,218	0.25%
Total		<u><u>\$16,562,709</u></u>	<u><u>9.92%</u></u>

District's Total 2018/19 Net Tax Capacity \$167,000,267

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

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedule following)

Total G.O. debt secured by taxes and state aids² (includes the Bonds)* \$266,870,000

Lease Purchase Obligations (see schedule following)

Total lease purchase obligations paid by annual appropriations³ \$ 7,610,000

Total lease purchase obligations paid by rental payments⁴ \$ 21,405,000

*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.

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

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

³ Non-general obligation debt has not been included in the debt ratios.

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

Some Districts will also receive aid for debt service payments through the state School Building Bond Agricultural Credit, which is paid to Districts to offset a portion of certain bond levies (Minn. Stat. Section 273.1387). The reimbursement percentages are 40% for taxes payable in 2018 and 2019, 50% for 2020, 55% for 2021, 60% for 2022, and 70% for 2023 and thereafter. The school building bond agricultural credit applies to farmland, excluding the house, garage and one acre, rural vacant land and managed forestland. The amount of agricultural credit received in the debt service fund for taxes payable 2020 is approximately 1.1% of total annual debt service levies, based on the District's 2018/19 qualifying agricultural land valuation. Although the District expects to receive some Agricultural Credit in its debt service fund, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by state aid.

Independent School District No. 535 (Rochester Public Schools), Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 01/30/2020)

Fiscal Year Ending	Alternative Facilities Refunding Bonds Series 2012A		Alternative Facilities Bonds Series 2013A		Alternative Facilities Bonds Series 2015A		School Building Refunding Bonds Series 2015B		Refunding Bonds Series 2015C	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Dated	04/01/2012		03/28/2013		05/13/2015		05/13/2015		12/22/2015	
Amount	\$15,340,000		\$14,870,000		\$4,180,000		\$9,755,000		\$3,625,000	
Maturity	02/01		02/01		02/01		02/01		02/01	
2020	1,000,000	182,509	100,000	192,731	180,000	48,598	820,000	195,750	980,000	24,500
2021	1,000,000	335,019	100,000	383,463	185,000	94,855	865,000	350,500		
2022	1,030,000	305,019	1,890,000	381,463	185,000	92,173	905,000	307,250		
2023	1,075,000	274,119	1,930,000	324,763	185,000	89,120	950,000	262,000		
2024	1,105,000	241,869	1,970,000	266,863	190,000	85,698	995,000	214,500		
2025	1,125,000	215,625	2,015,000	225,000	195,000	81,803	1,040,000	164,750		
2026	1,175,000	187,500	2,060,000	164,550	200,000	77,513	1,090,000	112,750		
2027	1,225,000	143,438	2,105,000	115,625	205,000	71,513	1,135,000	69,150		
2028	1,275,000	97,500	2,100,000	63,000	210,000	65,363	1,170,000	35,100		
2029	1,325,000	49,688			215,000	59,063				
2030					220,000	52,613				
2031					225,000	46,013				
2032					235,000	39,263				
2033					240,000	32,213				
2034					250,000	24,713				
2035					255,000	16,900				
2036					265,000	8,613				
2037										
2038										
2039										
2040										
		2,032,284	14,270,000	2,117,456	3,640,000	986,020	8,970,000	1,711,750	980,000	24,500

--Continued on next page

Independent School District No. 535 (Rochester Public Schools), Minnesota
Schedule of Bonded Indebtedness continued
General Obligation Debt Secured by Taxes
(As of 01/30/2020)

Dated Amount	Alternative Facilities Bonds Series 2016A		Facilities Maintenance Bonds Series 2016C		Alternative Facilities Refunding Bonds Series 2016D		Facilities Maintenance Bonds Series 2017B		Facilities Maintenance Bonds Series 2018A	
	03/17/2016 \$11,295,000	02/01	08/11/2016 \$13,605,000	02/01	11/17/2016 \$6,950,000	02/01	08/30/2017 \$4,110,000	02/01	12/19/2018 \$24,130,000	02/01
Fiscal Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	480,000	155,700	500,000	228,475	1,800,000	82,875	205,000	81,316	0	487,103
2021	490,000	297,000	525,000	431,950	1,875,000	93,750	215,000	152,381	560,000	974,206
2022	505,000	282,300	545,000	405,700			230,000	141,631	520,000	946,206
2023	520,000	267,150	575,000	378,450			240,000	130,131	965,000	930,606
2024	535,000	251,550	605,000	349,700			250,000	118,131	1,155,000	882,356
2025	555,000	235,500	635,000	319,450			265,000	105,631	1,340,000	824,606
2026	570,000	218,850	670,000	287,700			280,000	92,381	1,175,000	757,606
2027	585,000	201,750	695,000	260,900			295,000	78,381	1,410,000	698,856
2028	605,000	184,200	725,000	233,100			305,000	63,631	1,355,000	628,356
2029	625,000	166,050	740,000	214,975			325,000	48,381	1,140,000	560,606
2030	640,000	147,300	755,000	196,475			330,000	39,850	1,705,000	503,606
2031	660,000	128,100	780,000	177,600			340,000	30,775	1,905,000	435,406
2032	680,000	108,300	795,000	157,125			345,000	21,000	2,160,000	375,875
2033	700,000	87,900	820,000	135,263			355,000	10,650	2,340,000	302,975
2034	720,000	66,900	845,000	111,688					3,530,000	224,000
2035	745,000	45,300	870,000	86,338					2,870,000	100,450
2036	765,000	22,950	895,000	59,150						
2037			925,000	30,063						
2038										
2039										
2040	10,380,000	2,866,800	12,900,000	4,064,100	3,675,000	176,625	3,980,000	1,114,272	24,130,000	9,632,822

--Continued on next page

**Independent School District No. 535 (Rochester Public Schools), Minnesota
Schedule of Bonded Indebtedness continued
General Obligation Debt Secured by Taxes
(As of 01/30/2020)**

**School Building Bonds
Series 2020A**

Fiscal Year Ending	Dated Amount	Maturity	01/30/2020		02/01		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
			Principal	Estimated Interest	Principal	Estimated Interest						
	\$172,610,000*											
2020			0	0	6,065,000	1,679,557	7,744,557	260,805,000	2.27%	2020		
2021			3,435,000	6,659,663	9,250,000	9,772,787	19,022,787	251,555,000	5.74%	2021		
2022			4,560,000	6,469,465	10,370,000	9,331,206	19,701,206	241,185,000	9.62%	2022		
2023			5,140,000	6,241,465	11,580,000	8,897,804	20,477,804	229,605,000	13.96%	2023		
2024			6,270,000	5,984,465	13,075,000	8,395,131	21,470,131	216,530,000	18.86%	2024		
2025			6,875,000	5,670,965	14,045,000	7,843,330	21,888,330	202,485,000	24.13%	2025		
2026			6,330,000	5,327,215	13,550,000	7,226,065	20,776,065	188,935,000	29.20%	2026		
2027			7,040,000	5,010,715	14,695,000	6,650,328	21,345,328	174,240,000	34.71%	2027		
2028			8,405,000	4,658,715	16,150,000	6,028,965	22,178,965	158,090,000	40.76%	2028		
2029			8,640,000	4,238,465	13,010,000	5,337,228	18,347,228	145,080,000	45.64%	2029		
2030			8,895,000	3,892,865	12,545,000	4,832,709	17,377,709	132,535,000	50.34%	2030		
2031			9,215,000	3,537,065	13,125,000	4,354,959	17,479,959	119,410,000	55.26%	2031		
2032			9,585,000	3,168,465	13,800,000	3,870,028	17,670,028	105,610,000	60.43%	2032		
2033			9,860,000	2,880,915	14,315,000	3,449,915	17,764,915	91,295,000	65.79%	2033		
2034			10,155,000	2,585,115	15,500,000	3,012,415	18,512,415	75,795,000	71.60%	2034		
2035			10,470,000	2,270,310	15,210,000	2,519,298	17,729,298	60,585,000	77.30%	2035		
2036			10,805,000	1,930,035	12,730,000	2,020,748	14,750,748	47,855,000	82.07%	2036		
2037			11,165,000	1,578,873	12,090,000	1,608,935	13,698,935	35,765,000	86.60%	2037		
2038			11,525,000	1,216,010	11,525,000	1,216,010	12,741,010	24,240,000	90.92%	2038		
2039			11,910,000	824,160	11,910,000	824,160	12,734,160	12,330,000	95.38%	2039		
2040			12,330,000	419,220	12,330,000	419,220	12,749,220	0	100.00%	2040		
			172,610,000	74,564,165	266,870,000	99,290,795	366,160,795					

* Preliminary, subject to change.

**Independent School District No. 535 (Rochester Public Schools), Minnesota
Schedule of Bonded Indebtedness
Non-General Obligation Debt Secured by Annual Appropriation
(As of 01/30/2020)**

Certificates of Participation
Series 2017A

Dated	08/30/2017	
Amount	\$7,945,000	
Maturity	02/01	
Fiscal Year	Principal	Interest
Ending		
2020	445,000	114,150
2021	460,000	214,950
2022	475,000	201,150
2023	485,000	186,900
2024	500,000	172,350
2025	515,000	157,350
2026	530,000	141,900
2027	550,000	126,000
2028	565,000	109,500
2029	580,000	92,550
2030	600,000	75,150
2031	615,000	57,150
2032	635,000	38,700
2033	655,000	19,650
	7,610,000	1,707,450

Total P & I	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
559,150	445,000	114,150	559,150	7,165,000	5.85%	2020
674,950	460,000	214,950	674,950	6,705,000	11.89%	2021
676,150	475,000	201,150	676,150	6,230,000	18.13%	2022
671,900	485,000	186,900	671,900	5,745,000	24.51%	2023
672,350	500,000	172,350	672,350	5,245,000	31.08%	2024
672,350	515,000	157,350	672,350	4,730,000	37.84%	2025
671,900	530,000	141,900	671,900	4,200,000	44.81%	2026
676,000	550,000	126,000	676,000	3,650,000	52.04%	2027
674,500	565,000	109,500	674,500	3,085,000	59.46%	2028
672,550	580,000	92,550	672,550	2,505,000	67.08%	2029
675,150	600,000	75,150	675,150	1,905,000	74.97%	2030
672,150	615,000	57,150	672,150	1,290,000	83.05%	2031
673,700	635,000	38,700	673,700	655,000	91.39%	2032
674,650	655,000	19,650	674,650	0	100.00%	2033
9,317,450	7,610,000	1,707,450	9,317,450			

Independent School District No. 535 (Rochester Public Schools), Minnesota
 Schedule of Bonded Indebtedness
 Special Obligation Debt Secured by Tax Levy for Rental Payments
 (As of 01/30/2020)

Fiscal Year Ending	Full Term Ref Certs of Participation Series 2009B		Full Term Certificates of Participation Series 2012B		Full Term Certificates of Participation Series 2014A		Full Term Certificates of Participation Series 2018B		Total P & I	Total Interest	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Principal	Interest	Principal	Interest	Principal	Interest					
2020	\$6,255,000	02/01	720,000	12,600	280,000	86,454	1,410,000	111,375	3,801,638	361,638	17,965,000	16.07%	2020
2021			1,060,000	271,519	285,000	164,508	1,485,000	152,250	3,418,276	588,276	15,135,000	29.29%	2021
2022			1,090,000	239,719	290,000	155,958	1,560,000	78,000	3,413,676	473,676	12,195,000	43.03%	2022
2023			1,130,000	207,019	305,000	147,258			1,789,276	354,276	10,760,000	49.73%	2023
2024			1,140,000	173,119	315,000	138,108			1,766,226	311,226	9,305,000	56.53%	2024
2025			1,160,000	150,319	325,000	128,658			1,763,976	278,976	7,820,000	63.47%	2025
2026			1,190,000	124,219	340,000	118,908			1,773,126	243,126	6,290,000	70.61%	2026
2027			1,240,000	88,519	345,000	108,708			1,782,226	197,226	4,705,000	78.02%	2027
2028			1,275,000	51,319	355,000	97,495			1,778,814	148,814	3,075,000	85.63%	2028
2029			680,000	17,850	365,000	85,958			1,148,808	103,808	2,030,000	90.52%	2029
2030					380,000	74,095			454,095	74,095	1,650,000	92.29%	2030
2031					390,000	60,225			450,225	60,225	1,260,000	94.11%	2031
2032					405,000	45,990			450,990	45,990	855,000	96.01%	2032
2033					420,000	31,208			451,208	31,208	435,000	97.97%	2033
2034					435,000	15,878			450,878	15,878	0	100.00%	2034
			720,000	12,600	5,235,000	1,459,404	4,455,000	341,625	24,693,438	3,288,438	21,405,000		

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:

2018/19 Economic Market Value	\$15,725,295,907
Multiply by 15%	<u>0.15</u>
Statutory Debt Limit	\$2,358,794,386
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(266,870,000)
Less: Long-Term Debt Outstanding Being Paid Solely from Annual Appropriations	<u>(7,610,000)</u>
Unused Debt Limit*	<u><u>\$2,084,314,386</u></u>

*Preliminary, subject to change.

OVERLAPPING DEBT¹

Taxing District	2018/19 Taxable Net Tax Capacity	% In District	Total G.O. Debt ²	District's Proportionate Share
Olmsted County	\$198,905,629	82.3954%	\$83,115,000	\$ 68,482,937
Wabasha County	28,139,034	1.5375%	11,085,000	170,432
City of Oronoco	2,053,205	68.9826%	40,000	27,593
City of Pine Island	808,418	0.6144%	9,829,000	60,389
City of Rochester	141,974,891	99.3618%	47,060,000	46,759,663
District's Share of Total Overlapping Debt				<u><u>\$115,501,014</u></u>

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 (\$15,725,295,907)	Debt/ Current Population Estimate (127,003)
Total G.O. Debt Being Paid from Taxes and State Aids	\$ 266,870,000	1.70%	\$2,101.29
District's Share of Total Overlapping Debt	<u>\$ 115,501,014</u>	<u>0.73%</u>	<u>\$909.44</u>
Total*	<u><u>\$ 382,371,014</u></u>	<u><u>2.43%</u></u>	<u><u>\$3,010.72</u></u>

*Preliminary, subject to change.

FUTURE FINANCING

The District plans to issue approximately \$40,000,000 General Obligation Facilities Maintenance Bonds in December of 2020.

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
2014/15	\$40,758,375	\$40,453,626	\$40,738,415	99.95%
2015/16	49,440,178	49,132,687	49,448,066	100.00%
2016/17	53,844,571	53,387,325	53,745,309	99.82%
2017/18	52,579,292	52,335,407	52,492,008	99.83%
2018/19	55,894,599	In process of collection		

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

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

² Collections are through March 6, 2019 for Olmsted County and March 15, 2019 for Wabasha County.

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

TAX CAPACITY RATES¹

	2014/15	2015/16	2016/17	2017/18	2018/19
I.S.D. No. 535 (Rochester Public Schools)	21.115%	20.023%	17.862%	15.758%	15.684%
Olmsted County	52.558%	53.733%	53.911%	53.850%	53.562%
Wabasha County	57.532%	57.796%	54.346%	54.837%	53.669%
City of Hammond	64.151%	62.480%	64.081%	64.269%	70.740%
City of Oronoco	44.761%	44.772%	40.587%	40.383%	40.932%
City of Pine Island	73.541%	78.618%	79.429%	84.741%	81.325%
City of Rochester	50.217%	51.332%	51.109%	52.147%	52.723%
Town of Cascade ²	20.382%	20.955%	21.840%	20.969%	20.347%
W 1/2	4.753%	4.299%	4.037%	3.949%	3.571%
SE 1/4	3.524%	3.270%	2.940%	3.405%	3.368%
NE 1/4	1.303%	1.714%	1.391%	1.449%	1.507%
Haverhill Ambulance	N/A	N/A	N/A	1.265%	1.201%
Olmsted County HRA	N/A	N/A	N/A	0.966%	1.286%
Wabasha County HRA	0.445%	0.420%	0.416%	0.408%	0.391%

Referendum Market Value Rates:

I.S.D. No. 535 (Rochester Public Schools)	0.13829%	0.21471%	0.23952%	0.22478%	0.21949%
--	----------	----------	----------	----------	----------

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Olmsted and Wabasha 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 2,812, including 1,233 non-licensed employees and 1,579 licensed employees (1,506 of whom are teachers). The District provides education for 18,296 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
Teachers	June 30, 2021
Paraprofessionals	June 30, 2020
Food Service	June 30, 2020
Clerical	June 30, 2020
Maintenance	June 30, 2020
Principals	June 30, 2021

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. 74 and 75 (GASB 74/75). The District's most recent Comprehensive Annual Financial Report (CAFR) of its OPEB obligations shows a total OPEB liability of \$22,052,750 as of June 30, 2018. The District had been funding these obligations on a pay-as-you-go basis, but in June of 2015 the District created an irrevocable OPEB trust. The net position of the trust was \$12,202,205 as of June 30, 2019. Future OPEB costs will be paid partially from the trust and partially from operating funds.

Source: The District's most recent CAFR.

STUDENT BODY

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

Year	K-5	Grades 6-8	Grades 9-12	Total
2015/16	8,580	3,710	5,155	17,445
2016/17	8,619	3,809	5,218	17,646
2017/18	8,644	3,843	5,445	17,932
2018/19	8,668	3,918	5,576	18,162
2019/20	8,572	4,012	5,712	18,296

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

Year	K-5	Grades 6-8	Grades 9-12	Total
2020/21	8,731	4,095	5,764	18,590
2021/22	8,781	4,130	5,760	18,671
2022/23	8,800	4,113	5,868	18,781

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Mighty Oaks	1953	1959, 1966, 1980, 2016
Bamber Valley Elementary	1958	1961, 1966, 1989, 2003
Bishop Elementary	1959	1963
Churchill Elementary	1967	--
Elton Hills Elementary	1959	1962
Folwell Elementary	1930	1950, 1960, 2009, 2014
Franklin Elementary	1969	1990, 2014
Gage Elementary	1964	1989
Gibbs Elementary	2009	2014
Hoover Elementary	1968	2018
Jefferson Elementary	1950	1957, 1960, 1993, 1998
Lincoln Elementary	1950	1965, 2009, 2014
Longfellow Elementary	1950	1954, 1958, 1963, 2001, 2010
Pinewood Elementary	1957	1960, 1962, 1964, 1988, 2014
Riverside Central Elementary	2001	--
Sunset Terrace Elementary	1960	1963, 1990
Washington Elementary	1951	1956, 1964, 2000, 2014
Friedell Middle School	1967	1997
John Adams Middle School	1970	1980, 2005
Kellogg Middle School	1962	1980, 1989, 2005
Willow Creek Middle School	1979	1980, 2003
Century High School	1997	2000, 2001, 2004, 2005
John Marshall High School	1956	1958, 1974, 1980, 2001, 2006, 2007
Mayo High School	1966	1983, 2002, 2005
Edison Administration Building	1915	1950, 1957, 1971
Technology Support Service Center	2007	--
Facilities Services Center	1970	1996, 2006
Educational Services Center	1967	--
Hawthorne Education Center	1917	1928, 1938, 1964, 2002
Northrop Education Center	1915	1935, 2000, 2001
Rochester Alternative Learning Center	2006	--
Skyline	1957	1985

FUNDS ON HAND (as of October 31, 2019)

Fund	Total Cash and Investments
General	\$ 53,234,495
Food Service	3,356,924
Community Service	2,103,952
Debt Service	8,597,903
Building/Construction	10,996,425
Trust & Agency	20,402,585
Internal Service	13,178,031
Total Funds on Hand	<u><u>\$111,870,315</u></u>

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the District or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver 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 2019 audited financial statements.

FISCAL YEAR ENDING JUNE 30					
COMBINED STATEMENT	2016 Audited	2017 Audited	2018 Audited	2019 Audited	2019-20 Revised Budget ¹
Revenues					
Property taxes	\$ 24,160,437	\$ 38,340,277	\$ 43,064,622	\$ 41,583,186	\$ 43,838,775
Earnings on investments	131,778	213,134	165,973	1,077,687	803,000
Other	5,237,775	5,850,415	6,091,661	7,228,787	4,741,514
State sources	156,473,310	161,182,400	167,835,861	174,860,445	180,848,547
Federal sources	6,823,849	7,213,639	7,391,935	7,267,557	9,305,532
Total Revenues	\$ 192,827,149	\$ 212,799,865	\$ 224,550,052	\$ 232,017,662	\$ 239,537,368
Expenditures					
Current					
Administration	\$ 8,058,274	\$ 8,213,407	\$ 8,371,861	\$ 8,396,362	\$ 8,504,593
District support services	5,044,871	4,946,892	5,496,579	5,833,490	5,494,319
Elementary & secondary regular instruction	90,117,386	95,156,384	95,690,958	98,880,780	102,431,771
Vocational education instruction	2,595,519	3,228,266	3,043,500	3,008,638	3,196,809
Special education instruction	38,664,113	42,484,177	44,073,076	46,923,230	51,602,517
Community education and services	0	0	179,718	392,361	374,619
Instructional support services	13,203,897	15,073,271	13,576,452	16,044,207	13,707,573
Pupil support services	19,986,016	21,567,746	22,650,489	23,806,992	27,182,502
Sites and buildings	14,590,446	18,354,780	19,511,928	19,618,025	20,343,961
Fiscal and other fixed cost programs	432,681	387,278	391,035	532,832	496,208
Capital Outlay	5,458,807	3,230,032	2,938,410	3,346,955	9,831,233
Debt Service	3,429,706	3,442,522	3,444,890	3,270,469	3,203,826
Total Expenditures	\$ 201,581,716	\$ 216,084,755	\$ 219,368,896	\$ 230,054,341	\$ 246,369,931
Excess of revenues over (under) expenditures	\$ (8,754,567)	\$ (3,284,890)	\$ 5,181,156	\$ 1,963,321	\$ (6,832,563)
Other Financing Sources (Uses)					
Sale of equipment	\$ 87,267	\$ 162,519	\$ 174,770	\$ 78,130	\$ 26,777
Sale of real property	1,300,000	600	1,725,000	2,250,000	0
Insurance recovery	34,564	17,863	5,024	75,536	26,575
Purchase agreement proceeds	3,965,000	0	0	0	0
Capital lease proceeds	0	0	0	190,770	0
Issuance of certificates of participation	0	0	0	4,455,000	0
Issuance premium	230,600	0	0	263,159	0
Operating transfers in	500,000	1,000,000	0	500,000	0
Operating transfers out	(14,874)	(379,094)	(18,036)	0	0
Total Other Financing Sources (Uses)	\$ 6,102,557	\$ 801,888	\$ 1,886,758	\$ 7,812,595	\$ 53,352
Net Change in Fund Balances	\$ (2,652,010)	\$ (2,483,002)	\$ 7,067,914	\$ 9,775,916	\$ (6,779,211)
General Fund Balance July 1	25,677,053	23,025,043	20,542,041	27,609,955	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance June 30	\$ 23,025,043	\$ 20,542,041	\$ 27,609,955	\$ 37,385,871	
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	\$ 254,122	\$ 163,463	\$ 57,535	\$ 1,193,602	
Restricted	3,468,091	2,668,433	5,411,107	10,561,891	
Assigned	3,197,320	2,616,218	3,066,429	4,520,714	
Unassigned	16,105,510	15,093,927	19,074,884	21,109,664	
Total	\$ 23,025,043	\$ 20,542,041	\$ 27,609,955	\$ 37,385,871	

¹ The 2019-20 revised budget was approved on December 10, 2019. The District has a long and consistent history of adopting conservative budgets and of producing actual financial results that are substantially more favorable than the budget. Over the previous five years, the actual year-end general fund balance has exceeded the budgeted fund balance by an average of over \$9.0 million.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 119,931 and a current population estimate of 127,003, and comprising an area of 218 square miles, is located approximately 78 miles south of the Minneapolis/St. Paul metropolitan area. The City of Rochester is the County Seat of Olmsted County.

LARGER EMPLOYERS¹

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Mayo Medical Center	Medical hospital and clinics	35,000
I.S.D. No. 535 (Rochester Public Schools)	Elementary and secondary education	2,812
IBM	Computer services	2,791 ²
Olmsted Medical Center	Medical hospital and clinic	1,796
City of Rochester	Municipal government and services	1,459 ³
Olmsted County	County government and services	1,311
Charter Communications Inc./Spectrum	Cable television and internet	1,000 ⁴
Walmart Supercenter	Retail store	870 ⁵
Hy-Vee	Retail grocery store	690 ⁵
Target	Retail	600 ⁵
Rochester Community and Technical College	Community college	432

Source: *ReferenceUSA, written and telephone survey (November 2019), and the Minnesota Department of Employment and Economic Development.*

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

² Most recent information available. Estimated average number of employees as of February 2018.

³ Numbers in prior Preliminary Official Statements were higher due to the election year cycle.

⁴ Charter Communications, Inc. offers services to customers under the branding of Spectrum. Estimated employee number is as of 2018.

⁵ Total number of employees includes two locations within District limits.

U.S. CENSUS DATA

Population Trend: The District

2000 Estimated population ¹	98,191
2010 U.S. Census population	119,931
2018 Population Estimate	127,003
Percent of Change 2000 - 2010	+ 22.14%

Income and Age Statistics

	The District	Olmsted County	State of Minnesota	United States
2018 per capita income	\$40,400	\$39,667	\$36,245	\$33,831
2018 median household income	\$73,618	\$74,880	\$68,411	\$60,293
2018 median family income	\$94,731	\$94,389	\$86,204	\$73,965
2018 median gross rent	\$940	\$935	\$944	\$1,023
2018 median value owner occupied units	\$197,100	\$199,500	\$211,800	\$204,900
2018 median age	36.9 yrs.	37.2 yrs.	37.9 yrs.	37.9 yrs.

	State of Minnesota	United States
District % of 2018 per capita income	111.46%	119.42%
District % of 2018 median family income	109.89%	128.08%

Source: 2000 and 2010 Census of Population and Housing, and 2018 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder.census.gov).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>		<u>Average Unemployment</u>	
	Olmsted County	Olmsted County	State of Minnesota	State of Minnesota
2015	81,446	2.9%	3.7%	
2016	82,912	3.0%	3.9%	
2017	84,418	2.7%	3.5%	
2018	85,748	2.3%	2.9%	
2019, October	88,333	2.0%	2.5%	

Source: Minnesota Department of Employment and Economic Development.

¹ 2000 U.S. Census population information is not available.

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 or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Preliminary Official Statement, nor has the District requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Preliminary Official Statement is not intended to demonstrate the fiscal condition of the District since the date of the financial statements, in connection with the issuance of the Bonds, the District represents that there have been no material adverse change in the financial position or results of operations of the District, nor has the District incurred any material liabilities, which would make such financial statements misleading.

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

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019



INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 535
Rochester, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 535, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 535 as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for General Fund, Food Service Fund, and Community Service Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 16 to the basic financial statements, net position of fiduciary activities as of July 1, 2018 has been restated to properly reflect the District's Health Reimbursement Account Plan Trust as a fiduciary activity. The District reported a restatement for the correction of this error. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Report on Summarized Comparative Information

We have previously audited Independent School District No. 535's 2018 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated November 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 535's basic financial statements. The supplementary information section and the Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department of Education, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information section, the Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department of Education, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information section, the Uniform Financial Accounting and Reporting Standards Compliance Table, and the Schedule of Expenditures of Federal Awards 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2019, on our consideration of Independent School District No. 535's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 535's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Rochester, Minnesota
November 4, 2019

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

This section of Independent School District No. 535's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2018-2019 include the following:

- Total General Fund revenues were \$232,017,662 and total General Fund expenditures were \$230,054,341 for the fiscal year ended June 30, 2019. Total revenues and expenditures for all governmental funds combined were \$264,867,931 and \$275,375,035, respectively.
- The total fund balance in the General Fund increased by \$9,775,916 to \$37,385,871. The Unassigned fund balance in the General Fund increased by \$2,026,980 to \$21,109,664. Total General Fund revenues were 1.49% higher than the final budget, and total General Fund expenditures were 5.14% less than the final budget. The District spent less than budgeted in several areas, with the largest savings in supplies, followed by salaries and capital outlay.
- The total fund balance in the Food Services fund increased by \$146,266 to \$3,347,566, with revenue of \$9,047,274 and expenditures of \$8,901,008. The Food Service budget projected that expenditures would exceed revenue by \$250,528.
- Community Service programs offered by the District generated revenue of \$13,466,676 and expenditures of \$12,790,817 for the fiscal year. The total fund balance in the Community Services fund is \$974,169. The Community Service fund budget projected that revenues would exceed expenditures by \$294,027. Revenue was less than budgeted by \$332,992, primarily in the area of revenue from federal sources. Expenditures for programs offered were \$714,824 less than budgeted.
- The District spent \$11,592,444 on facility construction and deferred maintenance projects during the fiscal year. Of that amount, \$10,243,103 was spent on major maintenance projects at several district facilities, \$1,249,341 was spent on an addition to the Hoover Elementary School for pre-kindergarten and early childhood special education programming and \$100,000 was spent for earnest money for the purchase of 150 acres of land for future elementary, middle and high school buildings. The major cost of the maintenance projects was HVAC system replacement at two elementary schools.
- The long-term liability for compensated absences amounts to \$14,534,606 at June 30, 2019. This is an increase of \$135,721. The net long-term liability for other postemployment benefits is \$9,850,545 at June 30, 2019. This net liability increased by \$1,807,059 in 2018-2019. The District has an Other Postemployment Benefit Trust to begin to fund the postemployment obligation.
- The District has general obligation bonded debt principal outstanding in the amount of \$94,260,000 and certificates of participation payable principal outstanding in the amount of \$29,015,000 as of June 30, 2019. This is a combined increase of \$19,145,000 from the previous fiscal year end, as the District issued \$24,130,000 of General Obligation Facilities Maintenance Bonds, Series 2018A and \$4,455,000 of Certificates of Participation, Series 2018B, which exceeded principal payments made during the year.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL HIGHLIGHTS (CONTINUED)

- Net position of governmental activities increased by \$30,990,449 for the fiscal year. The total expense of governmental activities was \$228,498,083. Program revenues totaled \$84,312,672 and general revenues totaled \$175,175,860.

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 single audit 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.
- The proprietary funds statements offer short-term and long-term financial information about the activities the School District operates in a manner similar to businesses.
- The 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.

DISTRICT-WIDE STATEMENTS

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

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

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

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

DISTRICT-WIDE STATEMENTS (CONTINUED)

In the district-wide financial statements the District's activities are shown as Governmental activities:

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

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes.

The District has three kinds of funds:

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

- The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. The District currently uses internal service funds for the Health and Dental Care self-insurance program, the Workers' Compensation self-insurance program, and the District's print and copy workshop, Paper Tiger.
- **Fiduciary funds** - The District is the trustee, or fiduciary, for assets that belong to others, such as the Health Reimbursement Account Trust and Other Postemployment Benefit Trust. 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. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position from Governmental activities was \$(43,764,655) on June 30, 2019. (See Table A-1.) This represents an increase of 41.5% in net position. This increase is primarily attributed to \$31.2 million of reduced pension expenses resulting from the adjustments required for TRA and PERA Deferred Outflows of Resources, Deferred Inflows of Resources and Net Pension Liabilities. Total assets increased by approximately \$25.4 million or 7.3%. Capital assets increased by \$3.1 million or 1.5% as the District's capital outlay expenses exceeded the amount of depreciation expense in the current fiscal year. Total liabilities decreased by approximately \$230.3 million or 40.7% with current liabilities increasing by \$2.7 million and long-term liabilities decreasing by \$233.0 million primarily due to decreases in the TRA and PERA net pension liabilities.

Table A-1
The District's Net Position

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 165,473,022	\$ 143,235,126	15.53 %
Capital Assets	209,905,413	206,762,333	1.52
Total Assets	375,379,435	349,997,459	7.25
Deferred Outflows of Resources	185,713,403	257,893,077	(27.99)
Current Liabilities	38,824,972	36,132,695	7.45
Long-Term Liabilities	296,837,569	529,843,845	(43.98)
Total Liabilities	335,662,541	565,976,540	(40.69)
Deferred Inflows of Resources	269,194,952	116,669,100	130.73
Net Position:			
Net Investment in Capital Assets	100,220,272	104,105,249	(3.73)
Restricted	26,003,521	25,162,456	3.34
Unrestricted	(169,988,448)	(204,022,809)	(16.68)
Total Net Position	\$ (43,764,655)	\$ (74,755,104)	(41.46)

Changes in net position. The District's total revenues were \$259,488,532 for the year ended June 30, 2019. Property taxes and state formula aid accounted for 65% of total revenue for the year (See Figure A-1). Another 33% came from program revenues, and 2% comes from investment earnings and other general revenues.

The total cost of all programs and services was \$228,498,083. The District's expenses are predominantly related to educating and caring for students, approximately 77% (See Figure A-2). The purely administrative activities of the District accounted for just 3% of total costs.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Total revenues were more than expenditures, increasing net position by \$30,990,449.

Table A-2
Change in Net Position

Revenues	Governmental Activities for the		Percentage Change
	Fiscal Year Ended June 30, 2019	2018	
Program Revenues			
Charges for Services	\$ 14,320,685	\$ 12,660,370	13.11 %
Operating Grants and Contributions	66,882,458	71,487,272	(6.44)
Capital Grants and Contributions	3,109,529	2,807,623	10.75
General Revenues			
Property Taxes	52,948,556	54,095,182	(2.12)
Unrestricted State Aid	117,877,699	114,489,302	2.95
Investment Earnings	2,316,808	635,651	264.48
Other	2,032,797	1,539,495	32.04
Total Revenues	259,488,532	257,725,495	0.68
Expenses			
Administration	7,181,412	9,174,399	(21.72)
District Support Services	6,082,162	5,940,297	2.38
Regular Instruction	89,073,584	119,545,213	(25.49)
Vocational Education Instruction	2,416,995	3,466,031	(30.27)
Special Education Instruction	40,351,426	48,937,636	(17.55)
Instructional Support Services	14,612,459	14,026,866	4.17
Pupil Support Services	23,003,794	24,610,976	(6.53)
Sites and Buildings	21,142,142	21,620,148	(2.21)
Fiscal and Other Fixed Cost Programs	532,832	391,035	36.26
Food Service	8,616,539	9,085,342	(5.16)
Community Service	12,662,728	12,941,222	(2.23)
Interest and Fiscal Charges on Long-Term Liabilities	2,832,010	3,079,780	(8.05)
Total Expenses	228,498,083	272,818,945	(16.25)
Change in Net Position	30,990,449	(15,093,450)	
Beginning Net Position	(74,755,104)	(59,661,654)	
Ending Net Position	\$ (43,764,655)	\$ (74,755,104)	

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-1
Sources of District's Revenues for Fiscal 2019

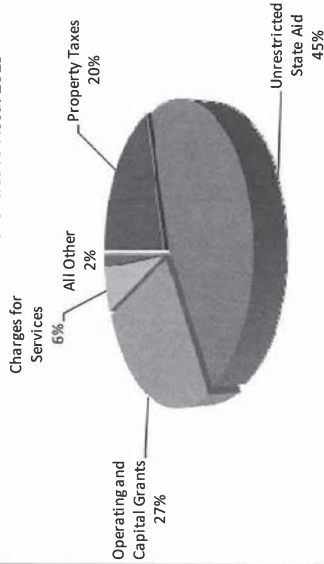
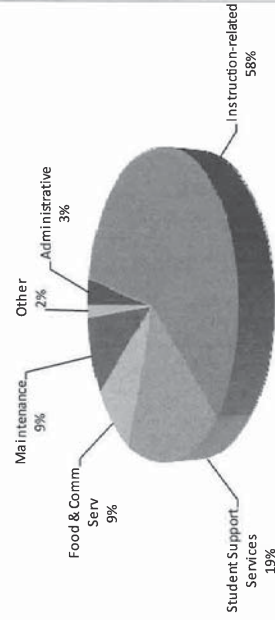


Figure A-2
District Expenses for Fiscal 2019



**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- The cost of all governmental activities was \$228,498,083 which is a decrease of \$44,320,862 or 16.3% from the previous year. The decrease in expenditures is primarily due to the decrease in the PERA and TRA net pension liabilities, which significantly decreased pension expense in the current fiscal year.
- Some of the cost was paid by the users of the District's programs (\$14,320,685).
- The federal and state governments subsidized certain programs with grants and contributions (\$69,991,987).
- Most of the District's costs (\$170,826,255), however, were paid for by District taxpayers and the taxpayers of the state of Minnesota.
- The net expense of governmental activities in excess of program revenue was paid for with \$52,948,556 in property taxes, \$117,877,699 of state aid based on the statewide education aid formula, and \$4,349,605 in investment earnings and other general revenues.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Net Cost of Services		Percentage Change
	2019	2018	2019	2018	
Administration	\$ 7,181,412	\$ 9,174,389	\$ 7,111,662	\$ 9,086,628	-21.62%
Support Services	6,052,152	5,940,287	4,944,589	4,952,287	-0.16%
Regular Instruction	11,815,805	11,815,805	11,815,805	11,815,805	0.00%
Vocational Education Instruction	2,416,995	3,468,031	2,233,812	3,274,043	-31.83%
Special Education Instruction	40,351,428	48,937,636	3,942,956	16,235,321	-75.71%
Instructional Support Services	14,612,459	14,026,866	10,526,850	10,231,769	2.86%
Pupil Support Services	23,003,794	24,610,976	21,839,502	23,392,053	-6.84%
Sites and Buildings	21,142,142	21,620,148	19,332,859	19,661,271	-1.67%
Fiscal and Other Fixed Cost Programs	532,832	391,035	446,678	391,035	15.00%
Food Service	6,616,539	6,616,539	(284,445)	72,860	-490.40%
Community Service	12,932,728	12,941,222	1,354,453	2,276,727	-40.07%
Interest and Fiscal Charges on Long-Term Liabilities	2,832,010	3,075,780	2,832,010	3,075,780	-8.05%
Total	\$ 228,498,083	\$ 272,819,945	\$ 144,185,411	\$ 185,603,090	-22.42%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year its governmental funds reported a combined fund balance of \$63,903,705, which is an increase of \$22,836,652 from the prior year ending fund balance. Revenues for the District's governmental funds were \$264,867,931, total expenditures were \$275,375,035, and other sources and uses provided \$33,343,756.

The Capital Projects fund balance increase totaled \$11,445,344. The fund balance of the General fund increased by \$9,775,916. The operations of the other governmental funds: Food Service, Community Service, and Debt Service resulted in an increase in fund balance of \$1,615,392.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND

The General Fund includes the primary operations of the District in providing educational services to students from early childhood through grade 12 including pupil transportation activities and operating capital expenditures.

The following table shows that the number of students has increased over the last four years, increasing by 884 students since 2015.

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

Grade	2015	2016	2017	2018	2019
ECSE	202	236	248	252	251
School Readiness	-	-	-	20	36
Kdgt.	1,345	1,371	1,350	1,346	1,329
1-3	4,065	4,091	4,064	4,007	4,011
4-6	3,857	3,844	3,945	4,055	4,041
7-12	7,228	7,413	7,528	7,760	7,903
Total K-12	16,687	16,955	17,135	17,440	17,571
ADM Change	N/A	268	180	305	131
Percent Change	N/A	1.6%	1.1%	1.8%	0.8%

District enrollment peaked in 2003 at 16,222 students in average daily membership, declined to 15,689 in 2006, and has been generally increasing since then to 17,571 in 2019. The enrollment growth is occurring at the secondary grade levels, with enrollment holding fairly steady at the elementary grade levels. District projections indicate that enrollments will be steady with slight growth for the next five years.

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	Year Ended		Change	Percent Change
	June 30, 2019	June 30, 2018		
Local Sources:				
Property Taxes	\$ 41,583,186	\$ 43,064,622	\$ (1,481,436)	(3.4)%
Earnings on Investments	1,077,687	165,973	911,714	549.3
Other	7,228,787	6,091,661	1,137,126	18.7
State Sources	174,860,445	167,835,861	7,024,584	4.2
Federal Sources	7,267,557	7,391,935	(124,378)	(1.7)
Total General Fund Revenue	\$ 232,017,662	\$ 224,550,052	\$ 7,467,610	3.3

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

Total General Fund revenue of \$232,017,662 increased by \$7,467,610 or 3.3% compared to the previous year. Basic general education revenue is determined by the state per student funding formula and consists of state aid revenue. Other state-authorized revenue including excess levy referendum and operating capital involve an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change of revenue.

State sources increased by \$7,024,584 or 4.2%. This is due to increased enrollment and legislative increases in per pupil funding formulas. Local sources increased by \$567,404 primarily due to increases in investment earnings and other sources. Federal sources decreased by \$124,378 or 1.7%.

The following schedule presents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended June 30, 2019	Year Ended June 30, 2018	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 131,010,886	\$ 125,983,368	\$ 5,027,518	4.0%
Employee Benefits	52,244,742	51,018,875	1,225,867	2.4%
Purchased Services	29,397,178	27,213,675	2,183,503	8.0%
Supplies and Materials	10,060,898	7,731,461	2,329,437	30.1%
Capital Expenditures	3,346,955	2,938,410	408,545	13.9%
Debt Service Expenditures	3,270,469	3,444,890	(174,421)	-5.1%
Other Expenditures	723,213	1,038,217	(315,004)	-30.3%
Total General Fund Expenditures	\$ 230,054,341	\$ 219,368,696	\$ 10,685,645	4.9%

The total General Fund expenditures of \$230,054,341 was an increase of \$10,685,645 or 4.9% over the prior year. Salaries and benefits increased by \$6,253,385 combined. Salaries increased 4.0% and employee benefits increased by 2.4%. The increase in salaries is attributed to step increases and salary schedule adjustments as established in employee contracts and increases in staffing resulting from the increase in student enrollment from the prior year (see Table A-4 above). The increase in employee benefits is primarily attributed to an increase in employer contributions to TRA resulting from salary increases and the employer contribution rate increasing from 7.50% in the prior year to 7.71% in the current year and an increase in District 403(b) matching contributions from the prior year.

Purchased services expenditures increased \$2,183,503 or 8.0%, from the prior year. Pupil transportation expenditures increased by \$1,169,428 as the District started providing pupil transportation for the Rochester Beacon Academy charter school in the current year and increased student enrollment in the District as compared to the prior year. Contracted services expenditures also increased by \$1,220,701 from the prior year. This is primarily attributed to increases in contracted services for maintenance of district buildings of \$407,633 and \$236,550 of contracted services related to district facility planning.

GENERAL FUND (CONTINUED)

Supplies and Materials increased \$2,329,437 or 30.1%, from the prior year. Following the issuance of the Certificates of Participation, Series 2018B in the current year, the District expended \$2,528,416 for student use technology equipment, which was an increase of \$2,223,300 from the prior year.

Capital expenditure costs increased by \$408,545 or 13.9%, from the prior year. The remaining categories of debt service and other expenditures net to an overall cost decrease of \$489,425 or 10.9% from 2018 to 2019.

In 2018-2019, General Fund revenues exceeded expenditures by \$1,963,321 which was \$15,870,694 better than budget. Revenue received was \$3,411,258 higher than budgeted and expenditures were \$12,459,436 less than budgeted. The unassigned fund balance increased from \$19,082,684 at June 30, 2018 to \$21,109,664 at June 30, 2019, an increase of \$2,026,980. Expenditures were less than budgeted in several areas, including supplies, followed by salaries and capital outlay. Additional discussion of budget variances is provided in the next section – General Fund Budgetary Highlights.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget. The budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, reinstating prior year designated carryover reserves, and changes in enrollment estimates.
- Increases in appropriations for significant unbudgeted costs or revenues.

The District's final budget for the general fund anticipated a net reduction in fund balance of \$6,177,912 while the actual results for the year show an increase of \$9,775,916.

In our analysis of significant variances between original and final budget amounts and between final budget amounts and actual results in the General Fund, there are no variances in revenues that will have a significant effect on future services or liquidity. The main reasons for the difference between the original budget and the final budget are described in the following paragraph. The District historically has used the October 1 student enrollment as the basis for the final budget.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

On the expenditure side of the budget, the major reasons for the variance between original and final budget amounts (approximately \$17.8 million) include the establishment of budgets resulting from the issuance of the Certificates of Participation, Series 2018B in the current year (approximately \$4.7 million), carryover of unspent funds from the previous fiscal year (approximately \$4.4 million), additional expenditure budgets resulting from additional grants awarded to the District after the original budget was approved (approximately \$2.3 million), establishment of operating capital expenditure budgets following the sale of the Multi Service Building in the current year (approximately \$2.2 million), additional local funding received by the District (approximately \$1.9 million), additional expenditure budgets added as a result of the teachers' contract settlement (approximately \$1.3 million) and increases to pupil transportation budgets of approximately \$0.8 million in the current year.

Taking a look at the \$12.5 million difference between the final expenditure budget and actual expenditures, the unspent supply budgets were approximately \$5.1 million. Of this amount, approximately \$1.3 million was set aside in assigned fund balances to be carried over and added to the site supply budgets in the following year. Approximately \$3.1 million of salaries budgets were unspent in the current fiscal year, which is primarily due to vacancies in budgeted positions. There was also unspent capital outlay budgets of \$2.8 million. Of this amount, \$2.5 million will carryover and be added to the capital outlay budgets in the following year. Also, employee benefit expenditures were approximately \$0.7 million less than budgeted. Some of these variances will have a positive effect on future budgets by allowing for ongoing budget reductions in certain areas.

FOOD SERVICE FUND

The Food Service Fund accounts for the activities related to providing nutrition services to the K-12 academic program. The fund operates on the principle of revenues exceeding expenditures on day-to-day operations so that the excess can be used to systematically replace and upgrade kitchen equipment around the District. By operating in this manner, the Student Nutrition Services program is self-contained and does not pull resources away from direct K-12 instruction. The District served 1,702,277 lunches and 677,310 breakfasts to students and staff, in addition to a la carte sales during the 2018-2019 school year.

The fund balance increased by \$146,266 in 2018-2019. This is \$396,794 better than budget. Food Service Fund revenue for 2018-2019 totaled \$9,047,274 which is an increase of \$42,965 or 0.5% from 2017-2018. Food Service Fund Expenditures for 2018-2019 totaled \$8,901,008, a decrease of \$306,977 or 3.3% from 2017-2018.

COMMUNITY SERVICE FUND

The Community Service Fund accounts for the activities related to providing education services for Pre-Kindergarten and Post-Grade 12 students. The fund operates on a principle of breaking even on a year-to-year basis so that it does not pull resources away from K-12 instruction.

The fund balance increased by \$675,859 in 2018-2019. Community Service Fund Revenues for 2018-2019 totaled \$13,466,676. This was an increase of \$943,981 or 7.5% from 2017-2018. Community Service Fund Expenditures for 2018-2019 totaled \$12,790,817. This was an increase of \$346,114 or 2.8% from 2017-2018.

The entire fund balance is restricted to be used for specific purposes based on state requirements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for the costs of school construction, addition, and renovation projects. Bond proceeds are deposited in the Capital Projects Fund and are then drawn down as the projects are made for work completed on the various building projects. The proceeds of bonds can only be used for the purpose for which the bonds were issued.

In 2018-2019 the District had interest earnings on investments of \$427,078. In addition, the District had other financing sources from the sale of bonds, bond premiums, and issuance of certificates of participation, totaling \$24,581,720 to fund the construction of building additions and capital improvements.

The District expended \$13,718,581 on capital projects at several sites as planned. The fund balance increased by \$11,445,344 in 2018-2019 to \$19,251,315 at June 30, 2019. Several projects are in process at the end of the fiscal year. At such time that the District has completed all construction projects in process, the fund balance of this fund should end up at \$0 as long as no further construction or facility renovation is approved.

DEBT SERVICE FUND

The Debt Service Fund exists to service the principal and interest payments 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% of pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payments can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

Debt service revenue was \$9,754,114 for 2018-2019, 92% of which came from property tax revenue. Debt service expenditures were \$9,910,288. The District made principal payments in the amount of \$7,140,000 and interest payments of \$2,757,738. The Debt Service Fund has a fund balance of \$2,944,184 as of June 30, 2019, which is restricted to be used for future debt payments.

The Minnesota Department of Education monitors fund balances in the Debt Service Fund and limits the amount of funds that can be carried forward. If the fund balance gets too high, future levy authority will be reduced in order to reduce the debt service fund balance to a reasonable level. Fund balance and collection of tax levies will provide adequate cash flow for timely payment of principal and interest.

The District currently has an underlying bond rating of Aa2 from Moody's and AA- from Standard & Poor's.

INTERNAL SERVICE FUND

This fund accounts for the District's self-funded employee's health and dental benefits, the workers' compensation program and the District's print and copy workshop, Paper Tiger. The costs of these programs are charged back to the other funds of the District based on established rates. The programs have total net position of \$10,013,003 as of June 30, 2019, as compared to \$16,464,753 on June 30, 2018. This is a decrease of \$6,451,750. Operating expenses exceeded operating revenues by \$6,436,504. The funds also had earnings on investments of \$484,754.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

INTERNAL SERVICE FUND (CONTINUED)

The operating loss of the health and dental care trust was \$6,496,344. This is primarily due to the level of health insurance claims for the fiscal year. Claims expense increased by \$12,439,445 from the prior year to \$39,060,712, while charges for premiums, net of refunds increased by \$551,565 from the prior year to \$33,008,693. Net position related to the health and dental care trust in the amount of \$9,617,807 can only be used to provide benefits and are not available to the District for other purposes. The Insurance Trust Committee, comprised of community experts and District employees, monitors the funding requirements on an ongoing basis.

HEALTH REIMBURSEMENT ACCOUNT TRUST

This fund accounts for the District's Health Reimbursement Account Trust. The Trust received contributions in the amount of \$2,897,958, experienced earnings on investments held of \$114,052, incurred benefit expenditures of \$2,518,451 and paid administrative fees of \$26,235, ending the year with a net position of \$8,021,206.

OTHER POSTEMPLOYMENT BENEFITS TRUST

This fund accounts for the District's irrevocable Other Postemployment Benefits Trust. The Trust received contributions in the amount of \$2,098,209, experienced earnings on investments held of \$782,032, incurred benefit expenditures of \$1,234,194, and paid administrative fees of \$5,029, ending the year with a net position of \$12,202,205.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

By the end of 2019, the District had invested \$209,906,413 in a broad range of capital assets including: school buildings, land, and other equipment for various instructional programs (see Table A-7). Accumulated depreciation as of June 30, 2019 was \$193,006,945, with current year depreciation expense for Governmental Activities totaling \$12,058,680. More detailed information about capital assets can be found in Note 4 to the financial statements.

**Table A-7
Capital Assets**

	2019	2018	Percentage Change
Land	\$ 9,115,065	\$ 9,065,798	0.5%
Construction in Progress	9,620,982	9,805,491	0.2%
Land Improvements	11,211,306	10,537,924	6.4%
Buildings and Improvements	354,786,316	342,954,770	3.4%
Equipment	17,788,919	17,149,569	3.7%
Leased Equipment	180,770	-	-
Less: Accumulated Depreciation	(193,006,945)	(182,751,219)	5.6%
Total District Capital Assets	<u>\$ 209,906,413</u>	<u>\$ 206,762,333</u>	1.5%

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities:

For the fiscal year ended June 30, 2019, the District had \$296,837,569 in long-term liabilities outstanding, including \$141,796,056 for net pension liability, \$94,260,000 in General Obligation Bonds, \$29,015,000 in Certificates of Participation, and \$14,534,606 for compensated absences. The decrease in total long-term liabilities was \$233,006,276 or 44.0% from last year (see Table A-8). More detailed information about the District's long-term liabilities is presented in Note 5 of the financial statements.

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

	2019	2018	Percentage Change
General Obligation Bonds	\$ 94,260,000	\$ 75,905,000	24.2%
Net Bond Premium and Discount	7,257,762	6,478,867	12.0%
Certificates of Participation Payable	29,015,000	28,225,000	2.8%
Capital Lease Payable	123,600	-	100.0%
Net Pension Liability	141,796,056	396,792,607	-64.3%
Net OPEB Liability	9,850,545	8,043,486	22.5%
Compensated Absences Payable	14,534,606	14,398,885	0.9%
Total Long-Term Liabilities	<u>\$ 296,837,569</u>	<u>\$ 529,843,845</u>	-44.0%

Long-Term Liabilities:

Due Within One Year	\$ 11,140,653	\$ 10,552,699
Due in More Than One Year	285,696,916	519,291,146
Total	<u>\$ 296,837,569</u>	<u>\$ 529,843,845</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 535, 615 7th Street SW, Rochester, Minnesota 55902.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF NET POSITION
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Governmental Activities	
	2019	2018
ASSETS		
Cash and Investments	\$ 111,296,373	\$ 94,490,976
Cash with Fiscal Agent	1,842	396,255
Receivables:		
Property Taxes	27,487,998	25,753,666
Other Governments	23,741,812	21,218,090
Other	1,600,252	1,181,355
Prepaid Items	1,246,389	110,649
Inventories	98,356	84,135
Capital Assets:		
Land and Construction in Progress	18,936,047	18,871,289
Other Capital Assets, Net of Depreciation	190,970,366	187,891,044
Total Assets	<u>375,379,435</u>	<u>349,997,459</u>
DEFERRED OUTFLOWS OF RESOURCES		
Losses on Debt Refunding	653,081	765,380
Deferred Outflows - Pension Related	182,962,467	257,127,697
Deferred Outflows - Other Postemployment Benefits Related	2,097,855	-
Total Deferred Outflows	<u>185,713,403</u>	<u>257,893,077</u>
LIABILITIES		
Salaries Payable	22,670,407	22,851,647
Accounts and Contracts Payable	10,178,051	7,525,046
Accrued Interest	1,694,487	1,596,476
Due to Other Governmental Units	156,064	87,440
Claims Payable	3,223,601	3,206,123
Unearned Revenue	902,362	865,963
Long-Term Liabilities:		
Net Pension Liability	141,796,056	396,792,607
Net Other Postemployment Benefits Liability	9,850,545	8,043,486
Portion Due Within One Year	11,140,653	10,552,699
Portion Due in More Than One Year	134,050,315	114,455,053
Total Liabilities	<u>335,662,541</u>	<u>565,976,540</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	53,572,760	50,346,004
Gains on Debt Refunding	473,933	640,395
Deferred Inflows - Pension Related	214,107,583	64,523,889
Deferred Inflows - Other Postemployment Benefits Related	1,040,676	1,158,812
Total Deferred Inflows of Resources	<u>269,194,952</u>	<u>116,669,100</u>
NET POSITION		
Net Investment in Capital Assets	100,220,272	104,105,249
Restricted for:		
General Fund Operating Capital Purposes	3,000,862	1,602,295
General Fund State-Mandated Reserves	7,561,029	3,449,907
Food Service	3,347,566	3,201,300
Community Service	986,721	306,766
Debt Service	1,297,663	592,427
Capital Projects - Building Construction	191,873	338,078
Health and Dental Insurance Trust	9,617,807	15,671,683
Unrestricted	(169,988,448)	(204,022,809)
Total Net Position	<u>\$ (43,764,655)</u>	<u>\$ (74,755,104)</u>

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

Functions	2019				2018	
	Expenses	Program		Net (Expense)	Net (Expense)	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and	Revenue and
					Change in	Change in
Total	Total	Total	Governmental	Governmental		
				Activities	Activities	
				Net Position	Net Position	
Governmental Activities						
Administration	\$ 7,181,412	\$ 9,750	\$ 60,000	\$ -	\$ (7,111,662)	\$ (9,096,828)
District Support Services	6,082,162	-	333,735	803,838	(4,944,589)	(4,952,287)
Regular Instruction	89,073,584	1,366,902	17,398,756	414,399	(69,893,527)	(93,199,106)
Vocational Education Instruction	2,416,995	270	184,874	39	(2,231,812)	(3,274,043)
Special Education Instruction	40,351,426	3,293,687	33,114,783	-	(3,942,956)	(16,235,321)
Instructional Support Services	14,612,459	29,733	2,608,085	1,447,791	(10,526,850)	(10,231,769)
Pupil Support Services	23,003,794	176,519	987,773	-	(21,839,502)	(23,392,053)
Sites and Buildings	21,142,142	25,524	1,340,317	443,462	(19,332,839)	(19,661,271)
Fiscal and Other Fixed Cost Programs	532,832	-	83,156	-	(449,676)	(391,035)
Food Service	8,616,539	3,540,677	5,360,307	-	284,445	(72,860)
Community Service	12,652,728	5,877,623	5,410,672	-	(1,364,433)	(2,276,727)
Interest and Fiscal Charges on						
Long-Term Liabilities	2,832,010	-	-	-	(2,832,010)	(3,079,780)
Total School District	<u>\$ 228,498,083</u>	<u>\$ 14,320,685</u>	<u>\$ 66,882,458</u>	<u>\$ 3,109,529</u>	<u>(144,185,411)</u>	<u>(185,863,080)</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					41,621,964	43,091,363
Community Service					2,365,357	2,001,859
Debt Service					8,961,235	9,001,960
State Aid Not Restricted to Specific Purposes					117,877,699	114,499,302
Earnings on Investments					2,316,808	635,651
Miscellaneous					76,816	932
Gain on Sale of Capital Assets					1,955,981	1,538,563
Total General Revenues					<u>175,175,860</u>	<u>170,769,630</u>
Change in Net Position					30,990,449	(15,093,450)
Net Position - Beginning					(74,755,104)	(59,661,654)
Net Position - Ending					<u>\$ (43,764,655)</u>	<u>\$ (74,755,104)</u>

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Major Funds			Major Funds		Total Governmental Funds	
	General	Food Service	Community Service	Capital Projects	Debt Service	2019	2018
ASSETS							
Cash and Investments	\$ 57,180,347	\$ 4,047,150	\$ 2,997,666	\$ 24,487,599	\$ 7,837,607	\$ 96,550,369	\$ 73,702,644
Cash with Fiscal Agent	1,842	-	-	-	-	1,842	396,255
Receivables:							
Current Property Taxes	20,953,449	-	1,482,778	-	4,771,595	27,207,822	25,526,344
Delinquent Property Taxes	219,658	-	12,552	-	47,966	280,176	227,322
Accounts and Interest Receivable	759,520	70,874	250,949	347,917	11,320	1,440,580	1,096,407
Due from Other Minnesota School Districts	78,555	-	-	-	-	78,555	109,523
Due from Minnesota Department of Education	18,122,117	345	363,224	-	67,089	18,552,775	17,446,040
Due from Federal through Minnesota Department of Education	2,538,515	74,280	226,893	-	-	2,839,688	3,103,614
Due from Other Governmental Units	2,270,794	-	-	-	-	2,270,794	558,913
Inventory	-	98,356	-	-	-	98,356	84,135
Prepays	1,193,602	4,510	15,439	-	-	1,213,551	106,489
Total Assets	\$ 103,318,399	\$ 4,295,515	\$ 5,349,501	\$ 24,835,516	\$ 12,735,577	\$ 150,534,508	\$ 122,357,686
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE							
Liabilities:							
Salaries and Compensated Absences Payable	\$ 9,852,621	\$ 312,162	\$ 500,844	\$ -	\$ -	\$ 10,665,627	\$ 10,282,941
Payroll Deductions and Employer Contributions Payable	11,222,212	250,919	502,677	-	-	11,975,808	12,539,379
Accounts and Contracts Payable	3,122,535	76,600	104,866	5,584,201	-	8,888,202	6,540,533
Claims Payable	190,404	-	-	-	-	190,404	401,651
Due to Other Governmental Units	156,064	-	-	-	-	156,064	87,440
Unearned Revenue	395,011	308,268	199,083	-	-	902,362	865,963
Total Liabilities	24,938,847	947,949	1,307,470	5,584,201	-	32,778,467	30,717,907
Deferred Inflows of Resources:							
Unavailable Revenue - Property Taxes Levied for Subsequent Year	40,774,023	-	3,055,310	-	9,743,427	53,572,760	50,346,004
Unavailable Revenue - Delinquent Property Taxes	219,658	-	12,552	-	47,966	280,176	227,322
Total Deferred Inflows of Resources	40,993,681	-	3,067,862	-	9,791,393	53,852,936	50,573,326
Fund Balance:							
Nonspendable:							
Inventory	-	98,356	-	-	-	98,356	84,135
Prepays	1,193,602	4,510	15,439	-	-	1,213,551	106,489
Restricted for:							
Staff Development	406,591	-	-	-	-	406,591	285,552
Projects Funded by Certificates of Participation	-	-	-	109,361	-	109,361	1,338,598
Operating Capital	3,000,862	-	-	-	-	3,000,862	1,602,295
Community Education	-	-	513,915	-	-	513,915	-
Early Childhood and Family Education	-	-	109,236	-	-	109,236	55,534
Area Learning Center	452,215	-	-	-	-	452,215	364,283
School Readiness	-	-	141,277	-	-	141,277	95,664
Adult Basic Education	-	-	194,302	-	-	194,302	103,358
Safe Schools Levy	295,856	-	-	-	-	295,856	152,579
Long Term Facilities Maintenance	2,247,770	-	-	19,288,160	-	21,535,930	8,347,997
Medical Assistance	2,384,199	-	-	-	-	2,384,199	762,268
Basic Skills Extended Time	38,135	-	-	-	-	38,135	-
Restricted for Other Purposes	1,736,263	3,244,700	-	-	2,944,184	7,925,147	5,626,418
Committed for:							
Assigned	4,520,714	-	-	-	-	4,520,714	3,066,429
Unassigned	21,109,664	-	-	(146,206)	-	20,963,458	19,074,884
Total Fund Balance	37,385,871	3,347,568	974,169	19,251,315	2,944,184	63,903,105	41,066,453
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 103,318,399	\$ 4,295,515	\$ 5,349,501	\$ 24,835,516	\$ 12,735,577	\$ 150,534,508	\$ 122,357,686

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
Total Fund Balance for Governmental Funds	\$ 63,903,105	\$ 41,066,453
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	9,115,065	9,065,798
Construction in Progress	9,820,982	9,805,491
Land Improvements, Net of Accumulated Depreciation	4,306,808	4,021,185
Buildings and Improvements, Net of Accumulated Depreciation	180,544,477	178,011,016
Equipment, Net of Accumulated Depreciation	6,119,081	5,858,843
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows of resources in the funds.		
	280,176	227,322
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.		
	(1,694,487)	(1,596,476)
Deferred amounts on refundings are not current financial resources and therefore are not reported in the governmental funds.		
	179,148	124,985
The District's Net Pension Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:		
Net Pension Liability	(141,399,492)	(396,317,706)
Deferred Outflows of Resources - Pensions	182,867,519	256,981,920
Deferred Inflows of Resources - Pensions	(213,999,170)	(64,423,789)
The District's Net Other Postemployment Benefits Liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:		
Net Other Postemployment Benefits Liability	(9,761,429)	(7,970,418)
Deferred Outflows of Resources - Other Postemployment Benefits	2,080,346	-
Deferred Inflows of Resources - Other Postemployment Benefits	(1,031,991)	(1,148,285)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(94,260,000)	(75,905,000)
Unamortized Premiums	(7,257,762)	(6,478,867)
Certificates of Participation Payable	(29,015,000)	(28,225,000)
Lease Purchase Agreement Payable	(123,600)	-
Compensated Absences Payable	(14,451,434)	(14,317,329)
Internal service funds are used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position at year-end is:		
	10,013,003	16,464,753
Total Net Position of Governmental Activities	\$ (43,764,655)	\$ (74,755,104)

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

	Major Funds					Total Governmental Funds	
	General	Food Service	Community Service	Capital Projects	Debt Service	2019	2018
REVENUES							
Local Sources:							
Property Taxes	\$ 41,583,186	\$ -	\$ 2,361,261	\$ -	\$ 8,951,255	\$ 52,895,702	\$ 54,070,329
Earnings and Investments	1,077,687	158,305	43,336	427,078	125,648	1,832,054	473,880
Other	7,228,787	3,540,677	6,387,043	155,127	-	17,311,634	15,750,729
State Sources	174,860,445	516,264	3,833,709	-	677,211	179,887,629	172,870,596
Federal Sources	7,267,557	4,832,028	841,327	-	-	12,940,912	12,893,394
Total Revenues	<u>232,017,662</u>	<u>9,047,274</u>	<u>13,466,676</u>	<u>582,205</u>	<u>9,754,114</u>	<u>264,867,931</u>	<u>256,058,928</u>
EXPENDITURES							
Current:							
Administration	8,396,362	-	-	-	-	8,396,362	8,371,861
District Support Services	5,833,490	-	-	-	-	5,833,490	5,496,579
Elementary and Secondary Regular Instruction	98,880,780	-	-	-	-	98,880,780	95,690,958
Vocational Education Instruction	3,008,638	-	-	-	-	3,008,638	3,043,500
Special Education Instruction	46,923,230	-	-	-	-	46,923,230	44,073,076
Instructional Support Services	16,044,207	-	-	-	-	16,044,207	13,576,452
Pupil Support Services	23,806,992	-	-	-	-	23,806,992	22,650,489
Sites and Buildings	19,618,025	-	-	2,126,137	-	21,744,162	21,282,468
Fiscal and Other Fixed Cost Programs	532,832	-	-	-	-	532,832	391,035
Food Service	-	8,663,575	-	-	-	8,663,575	9,049,988
Community Service	392,361	-	12,790,817	-	-	13,183,178	12,617,975
Capital Outlay	3,346,955	237,433	-	11,592,444	-	15,176,832	15,519,672
Debt Service:							
Principal	2,367,170	-	-	-	7,140,000	9,507,170	9,361,015
Interest and Fiscal Charges	903,299	-	-	-	2,770,288	3,673,587	4,250,163
Total Expenditures	<u>230,054,341</u>	<u>8,901,008</u>	<u>12,790,817</u>	<u>13,718,581</u>	<u>9,910,288</u>	<u>275,375,035</u>	<u>265,375,231</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,963,321	146,266	675,859	(13,136,376)	(156,174)	(10,507,104)	(9,316,303)
OTHER FINANCING SOURCES (USES)							
Sale of Real Property	2,250,000	-	-	-	-	2,250,000	1,734,285
Sale of Equipment	78,130	-	-	-	-	78,130	174,770
Insurance Recovery	75,536	-	-	-	-	75,536	5,024
Issuance of Bonds	-	-	-	24,130,000	-	24,130,000	4,110,000
Issuance Premium	263,159	-	-	451,720	949,441	1,664,320	768,493
Issuance of Certificates of Participation	4,455,000	-	-	-	-	4,455,000	7,945,000
Capital Lease Proceeds	190,770	-	-	-	-	190,770	-
Payment to Refunded Bond Escrow Agent	-	-	-	-	-	-	(10,245,000)
Transfers In	500,000	-	-	-	-	500,000	18,036
Transfers Out	-	-	-	-	-	-	(18,036)
Total Other Financing Sources (Uses)	<u>7,812,595</u>	<u>-</u>	<u>-</u>	<u>24,581,720</u>	<u>949,441</u>	<u>33,343,756</u>	<u>4,492,572</u>
Net Change in Fund Balance	9,775,916	146,266	675,859	11,445,344	793,267	22,836,652	(4,823,731)
FUND BALANCES							
Beginning of Year	27,609,955	3,201,300	298,310	7,805,971	2,150,917	41,066,453	45,890,184
End of Year	<u>\$ 37,385,871</u>	<u>\$ 3,347,566</u>	<u>\$ 974,169</u>	<u>\$ 19,251,315</u>	<u>\$ 2,944,184</u>	<u>\$ 63,903,105</u>	<u>\$ 41,066,453</u>

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

	2019	2018
Net Change in Fund Balance - Total Governmental Funds	\$ 22,836,652	\$ (4,823,731)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period is:		
Capital Outlays	15,574,909	16,657,331
Gain (Loss) on Disposal of Capital Assets	1,955,981	1,538,563
Proceeds from the Sales of Capital Assets	(2,328,130)	(1,914,079)
Depreciation Expense	(12,058,680)	(11,540,189)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unearned in the governmental funds.		
	52,854	24,853
Pension expenditures in the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.		
	31,228,432	(29,649,243)
Other postemployment benefit (OPEB) expenditures in the governmental funds are measured by current year employer contributions. OPEB expenses on the statement of activities are measured by the change in the net OPEB liability and the related deferred inflows and outflows of resources.		
	405,629	1,588,474
In the statement of activities, certain operating expenses - severance benefits and compensated absences - are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amounts actually paid).		
	(134,105)	(327,232)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
General Obligation and Certificates of Participation Bond Proceeds	(28,585,000)	(12,055,000)
Capital Lease Proceeds	(190,770)	-
Issuance Premium or Discount	(1,664,320)	(768,493)
Payment to Refunded Bond Escrow Agent	-	10,245,000
Deferred Charges on Refunding Bonds	54,163	48,011
Repayment of Bond Principal	5,775,000	5,235,000
Repayment of Certificates of Participation Payable	3,665,000	3,230,000
Repayment of Lease Purchase Agreement Payable	67,170	896,015
Change in Accrued Interest - General Obligation Bonds	(154,012)	443,192
Change in Accrued Interest - Certificates of Participation	62,804	(138,577)
Change in Accrued Interest - Capital Lease	(6,803)	-
Amortization of Issuance Premium	885,425	817,757
Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net revenue of the internal service funds is reported with governmental activities.		
	(6,451,750)	5,398,898
Total	\$ 30,990,449	\$ (15,093,450)

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 41,700,357	\$ 41,670,549	\$ 41,583,186	\$ (87,363)
Earnings and Investments	437,000	724,000	1,077,687	353,687
Other	3,521,786	5,558,875	7,228,787	1,669,912
State Sources	172,131,551	171,977,366	174,860,445	2,883,079
Federal Sources	6,662,424	8,675,614	7,267,557	(1,408,057)
Total Revenues	<u>224,453,118</u>	<u>228,606,404</u>	<u>232,017,662</u>	<u>3,411,258</u>
EXPENDITURES				
Current:				
Administration	8,518,997	8,442,374	8,396,362	(46,012)
District Support Services	6,760,383	6,163,049	5,833,490	(329,559)
Elementary and Secondary				
Regular Instruction	96,950,567	101,958,770	98,880,780	(3,077,990)
Vocational Education Instruction	2,944,029	3,158,816	3,008,638	(150,178)
Special Education Instruction	49,374,901	50,064,849	46,923,230	(3,141,619)
Community Education and Services	283,070	365,698	392,361	26,663
Instructional Support Services	13,536,821	18,482,914	16,044,207	(2,438,707)
Pupil Support Services	21,941,335	23,883,259	23,806,992	(76,267)
Sites and Buildings	18,034,665	20,097,032	19,618,025	(479,007)
Fiscal and Other Fixed Cost Programs	398,708	437,741	532,832	95,091
Capital Outlay	2,804,871	6,192,567	3,346,955	(2,845,612)
Debt Service:				
Principal	2,300,000	2,367,170	2,367,170	-
Interest and Fiscal Charges	899,538	899,538	903,299	3,761
Total Expenditures	<u>224,747,885</u>	<u>242,513,777</u>	<u>230,054,341</u>	<u>(12,459,436)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(294,767)	(13,907,373)	1,963,321	15,870,694
OTHER FINANCING SOURCES (USES)				
Sale of Real Property	-	2,250,000	2,250,000	-
Sale of Equipment	20,000	67,255	78,130	10,875
Insurance Recovery	-	3,276	75,536	72,260
Bond Premium	-	263,159	263,159	-
Issuance of Certificates of Participation	-	4,455,001	4,455,000	(1)
Capital Lease Proceeds	-	190,770	190,770	-
Transfers In	500,000	500,000	500,000	-
Transfers Out	(25,000)	-	-	-
Total Other Financing Sources (Uses)	<u>495,000</u>	<u>7,729,461</u>	<u>7,812,595</u>	<u>83,134</u>
Net Change in Fund Balance	<u>\$ 200,233</u>	<u>\$ (6,177,912)</u>	<u>9,775,916</u>	<u>\$ 15,953,828</u>
FUND BALANCE				
Beginning of Year			<u>27,609,955</u>	
End of Year			<u>\$ 37,385,871</u>	

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 87,000	\$ 87,000	\$ 158,305	\$ 71,305
Other - Primarily Meal Sales	3,799,229	3,574,706	3,540,677	(34,029)
State Sources	506,773	473,068	516,264	43,196
Federal Sources	5,116,967	4,992,945	4,832,028	(160,917)
Total Revenues	<u>9,509,969</u>	<u>9,127,719</u>	<u>9,047,274</u>	<u>(80,445)</u>
EXPENDITURES				
Current:				
Food Service	9,423,872	8,835,462	8,663,575	(171,887)
Capital Outlay	258,285	542,785	237,433	(305,352)
Total Expenditures	<u>9,682,157</u>	<u>9,378,247</u>	<u>8,901,008</u>	<u>(477,239)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(172,188)	(250,528)	146,266	396,794
OTHER FINANCING SOURCES				
Transfers In	25,000	-	-	-
Total Other Financing Sources	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (147,188)</u>	<u>\$ (250,528)</u>	146,266	<u>\$ 396,794</u>
FUND BALANCE				
Beginning of Year			<u>3,201,300</u>	
End of Year			<u>\$ 3,347,566</u>	

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 2,368,564	\$ 2,363,874	\$ 2,361,261	\$ (2,613)
Earnings and Investments	18,000	25,000	43,336	18,336
Other - Primarily Tuition and Fees	6,324,028	6,504,538	6,387,043	(117,495)
State Sources	3,785,423	3,903,556	3,833,709	(69,847)
Federal Sources	792,539	1,002,700	841,327	(161,373)
Total Revenues	<u>13,288,554</u>	<u>13,799,668</u>	<u>13,466,676</u>	<u>(332,992)</u>
EXPENDITURES				
Current:				
Community Service	13,098,802	13,505,641	12,790,817	(714,824)
Capital Outlay	23,500	-	-	-
Total Expenditures	<u>13,122,302</u>	<u>13,505,641</u>	<u>12,790,817</u>	<u>(714,824)</u>
Net Change in Fund Balance	<u>\$ 166,252</u>	<u>\$ 294,027</u>	675,859	<u>\$ 381,832</u>
FUND BALANCE				
Beginning of Year			<u>298,310</u>	
End of Year			<u>\$ 974,169</u>	

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	<u>Governmental Activities - Internal Service Funds</u>	
	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,445,165	\$ 10,902,125
Investments	13,300,839	9,886,207
Accounts Receivable	1,391	62
Interest Receivable	158,281	84,886
Prepays	32,838	4,160
Total Assets	<u>14,938,514</u>	<u>20,877,440</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	94,948	145,777
OPEB	17,509	-
Total Deferred Outflows	<u>112,457</u>	<u>145,777</u>
 LIABILITIES		
Current Liabilities		
Salaries Payable	28,972	29,327
Accounts Payable	1,289,849	984,513
Claims Payable - Medical	3,033,197	2,804,472
Total Current Liabilities	<u>4,352,018</u>	<u>3,818,312</u>
Non Current Liabilities		
Net Pension Liability	396,564	474,901
Compensated Absences Payable	83,172	81,556
Net OPEB Liability	89,116	73,068
Total Non Current Liabilities	<u>568,852</u>	<u>629,525</u>
Total Liabilities	4,920,870	4,447,837
 DEFERRED INFLOWS OF RESOURCES		
Pension Related	108,413	100,100
OPEB	8,685	10,527
Total Deferred Inflows	<u>117,098</u>	<u>110,627</u>
 NET POSITION		
Restricted for:		
Health and Dental Insurance Trust	9,617,807	15,671,683
Unrestricted	395,196	793,070
Total Net Position	<u>\$ 10,013,003</u>	<u>\$ 16,464,753</u>

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

	Governmental Activities - Internal Service Funds	
	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Charges for Services:		
Premiums, Net of Refunds	\$ 34,075,916	\$ 33,472,322
Other Services	434,707	407,945
Total Operating Revenues	<u>34,510,623</u>	<u>33,880,267</u>
OPERATING EXPENSES		
Salaries	476,370	457,021
Employee Benefits	172,297	230,665
Claim Expense	39,993,780	27,665,019
Other Purchased Services	184,398	166,423
Services, Supplies, and Fees	120,282	124,012
Total Operating Expenses	<u>40,947,127</u>	<u>28,643,140</u>
Operating Income (Loss)	(6,436,504)	5,237,127
NONOPERATING INCOME		
Earnings on Investments	<u>484,754</u>	<u>161,771</u>
Net Income Before Transfers	(5,951,750)	5,398,898
Transfers Out	<u>(500,000)</u>	<u>-</u>
Change in Net Position	(6,451,750)	5,398,898
Net Position - Beginning	<u>16,464,753</u>	<u>11,065,855</u>
Net Position - Ending	<u>\$ 10,013,003</u>	<u>\$ 16,464,753</u>

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

	Governmental Activities - Internal Service Funds	
	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 34,509,294	\$ 33,880,424
Payments for Administrative Costs	(669,904)	(643,527)
Payments for Claims	(39,765,151)	(27,351,725)
Payments for Other Purchased Services	103,209	(184,294)
Payments for Services, Supplies, and Materials	(131,135)	(115,331)
Net Cash Provided (Used) by Operating Activities	<u>(5,953,687)</u>	<u>5,585,547</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers Out	(500,000)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturities of Investment Securities	1,846,042	2,958,972
Purchase of Investment Securities	(5,260,674)	(3,563,945)
Interest Received	411,359	161,928
Net Cash Used by Investing Activities	<u>(3,003,273)</u>	<u>(443,045)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,456,960)	5,142,502
Cash and Cash Equivalents - Beginning of Year	<u>10,902,125</u>	<u>5,759,623</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,445,165</u>	<u>\$ 10,902,125</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (6,436,504)	\$ 5,237,127
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(1,329)	157
(Increase) Decrease in Prepaid Items	(28,678)	8,681
(Increase) Decrease in Deferred Outflows	33,320	68,306
Increase (Decrease) in Salaries Payable	(355)	898
Increase (Decrease) in Accounts Payable	305,336	(17,859)
Increase (Decrease) in Claims Payable	228,725	313,282
Increase (Decrease) in Net Pension Liability	(78,337)	(69,150)
Increase (Decrease) in Compensated Absences	1,616	2,687
Increase (Decrease) in Net OPEB Liability	16,048	(20,271)
Increase (Decrease) in Deferred Inflows	6,471	61,689
Total Adjustments	<u>482,817</u>	<u>348,420</u>
Net Cash Provided by Operating Activities	<u>\$ (5,953,687)</u>	<u>\$ 5,585,547</u>

See accompanying Notes to Financial Statements.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2019**

	Reimbursement Account Trust	Irrevocable OPEB Trust
ASSETS		
Cash and Cash Equivalents	\$ 8,068,149	\$ 12,210,258
Interest Receivable	-	1,065
Total Assets	8,068,149	12,211,323
LIABILITIES		
Accounts and Contracts Payable	30,209	9,118
Claims Payable	16,734	-
Total Liabilities	46,943	9,118
NET POSITION		
Held In Trust	\$ 8,021,206	\$ 12,202,205

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2019**

	Reimbursement Account Trust	Irrevocable OPEB Trust
ADDITIONS		
Contributions	\$ 2,897,958	\$ 2,098,209
Earnings on Investments	114,052	782,032
Total Additions	3,012,010	2,880,241
DEDUCTIONS		
Benefits Paid	2,518,451	1,234,194
Administrative Expenses	26,235	5,029
Total Deductions	2,544,686	1,239,223
Change in Net Position	467,324	1,641,018
Net Position - Beginning of Year, as Previously Stated	-	10,561,187
Prior Period Adjustment	7,553,882	-
Net Position - Beginning of Year, as Restated	7,553,882	10,561,187
Net Position - End of Year	\$ 8,021,206	\$ 12,202,205

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 535 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as Accounting Principles Generally Accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 535 (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, 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. These financial statements include all fund and account groups of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. In accordance with Minnesota Statutes, the District's School Board has elected to control or be financially accountable for certain extracurricular student activities. Accordingly, the accounts and transactions for the activity funds are included in the financial statements within the General Fund. The District's School Board has also elected to not control or exercise oversight responsibility with respect to other student activities. Accordingly, those student activity accounts are not included in these financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational, or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Separate Fund financial statements are provided for governmental, proprietary, 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: Health Reimbursement Account (HRA) Trust and irrevocable OPEB trust. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements. The HRA Trust is an IFS-approved, employer-funded, tax-advantaged health benefit used to reimburse employees for out-of-pocket medical expenses and personal health premiums. This plan is for active employees.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services is the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

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

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

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

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

Description of Funds

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

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Major Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the district, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

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

Community Service Special Revenue Fund - The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, state tax credits, and aid from the federal and state governments. These revenues are restricted for the Community Service Special Revenue Fund.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources used for the acquisition of capital assets, construction, or renovation of major capital facilities, and deferred facilities maintenance. The District uses project accounts to account for the transactions of the various projects.

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

Proprietary Funds

Internal Service Funds – Accounts for the financing of services, provided by one fund to other funds of the District on a cost reimbursement basis. The School District's internal service funds and their purposes are as follows:

Health and Dental Care Trust – Accounts for the operations of the District's Health and Dental Care Self-Insurance Program. Self-insurance costs are charged to the various funds based on established premium rates.

Workers' Compensation – Accounts for the operations of the District's Workers' Compensation Self-Insurance Program. Self-insurance costs are charged to the various funds based on established premium rates.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. **Measurement Focus and Basis of Accounting (Continued)**

Proprietary Funds (Continued)

Paper Tiger – Accounts for the operations of the District's print and copy workshop. Costs for utilizing the facility are charged to the various funds based on established rates.

Fiduciary Funds

Health Reimbursement Account Trust Fund – The Health Reimbursement Account Trust Fund is used for reporting resources set aside and held in a trust arrangement for employee benefits.

Other Postemployment Benefits Irrevocable Trust Fund – The Other Postemployment Benefits Irrevocable Trust Fund is used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits.

E. **Budgeting**

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Capital Projects, 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 is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

F. **Cash and Investments**

Cash of the individual funds is combined for investment purposes. Investments consist primarily of money market funds, commercial paper, negotiated certificates of deposit, government securities, and mutual funds. Investments with an original maturity of less than one year are recorded at amortized cost, which approximates fair value. Investments with an original maturity of more than one year are recorded at fair value based on quoted market prices. Interest earned as a result of these investments and the combined deposit account is distributed to the appropriate funds based on average cash and investment balances of each fund.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. **Cash with Fiscal Agent**

Cash and investments held by trustee consisted of cash and commercial paper held by an escrow agent. These funds are the proceeds from Certificates of Participation issued by the District and held in trust by the trustee and to be disbursed for the acquisition of student use technology equipment, per a lease-purchase agreement.

H. **Cash and Cash Equivalents**

For purposes of reporting cash flows, the District considers all demand accounts, savings accounts and money market funds to be cash and cash equivalents while all certificates of deposits, commercial paper, mutual funds, and government bonds, if any, regardless of maturities are considered investments.

I. **Receivables**

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

J. **Prepaid Items**

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.

K. **Inventory**

Inventory is recorded using the consumption method of accounting and consists of food, paper, and other supplies on hand at June 30, 2019 and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

L. **Property Taxes**

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Property Taxes (Continued)

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for subsequent year). The majority of District revenue in the General (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with state law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy which is frozen at \$1,773,579 for the District. Certain other portions of the District's 2018 Pay 2019 levy, normally revenue for the 2019-20 fiscal year, are also advance recognized at June 30, 2019, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is unavailable because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2019, are included in the Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

M. 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 acquisition value at the date of donation. The District maintains a threshold level of \$5,000 for capitalizing equipment and furnishings and \$50,000 for capitalizing buildings and improvements. 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. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 20 years for equipment and furnishings.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Capital Assets (Continued)

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

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

N. Deferred Outflows of Resources

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

O. Long-Term Liabilities

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt 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.

P. Accrued Employee Benefits

Compensated Absences

The District has employee and union contracts with several different employee groups. Employee benefits under the contracts are different, but generally include provisions for sick leave, vacation leave, and termination benefits. The District accounts for the employee benefits as follows:

Vacation leave vests and may be carried forward for between six months and one year, depending on the contract. A liability is recorded for earned but unpaid vacation.

Sick leave does not vest and is accounted for as an expenditure when paid, except as discussed below.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Accrued Employee Benefits (Continued)

Compensated Absences (Continued)

Termination benefits generally vest after completion of ten years of service and attaining age 55. The maximum benefit obligation is generally based on accumulated unused sick leave, years of service, or a percent of salary, depending on the employment contract. A liability is recorded for vested benefits and unvested benefits which are expected to vest in future periods. The vesting method using historical data was used to calculate the liability.

Other Postemployment Benefits Payable

Under the provisions of the various employee and union contracts the District provides Health and Dental Care coverage until age 65 if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. See Note 11 for further information.

Q. 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 excess TIF payments and 2019-2020 school year deposits.

R. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and 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.

* Differences between expenses of \$22,504 and net position of \$490,316 reported in the UFARS compliance table for the internal service fund is due to the accounting for the net pension liability and net OPEB liability associated with GASB Statements No. 68 and 75, respectively, and the related deferred outflows and inflows of resources.

S. Deferred Inflows of Resources

In addition to liabilities, the financial statements report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has five types of items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Deferred Inflows of Resources (Continued)

The second type is pension related. The third type is for deferred gain on refunding, which is being amortized over the life of the bonds. The fourth type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The fifth type is related to the other postemployment benefit plan.

T. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance are related to prepaid items and inventories. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by resolutions approved by the Board of Education. The Board of Education passed a resolution authorizing the Superintendent and Executive Director of Business and Operations to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts.

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

It is also the District's policy to maintain an unassigned general fund balance of no less than 6% of the annual budgeted expenditures.

U. 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 is self-insured for employee related health, dental and workers' compensation. The District purchases commercial insurance coverage for all other risks of loss.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

V. Self Insurance Claims

This liability represents an estimate of health, dental and workers' compensation claims incurred but not reported as of June 30, 2019.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

W. Net Position

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

X. Summarized Financial Information

The basic financial statements include certain prior-year summarized financial information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2018, from which the summarized financial information was derived. Some of the prior year balances were reclassified to conform with the current year presentation.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Expenditures in Excess of Budget

The District had no expenditures in excess of budget.

B. Interfund Transfers

The District had the following interfund transfers for the year ended June 30, 2019:

General Fund	Transfers In	Transfers Out
Internal Service Fund	\$ 500,000	\$ -
Total	<u>\$ 500,000</u>	<u>\$ 500,000</u>

The Workers Compensation internal service fund transferred \$500,000 to the General Fund during the year.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

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

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

The District maintains a cash pool that is available for use by all funds, except the Other Postemployment Benefits Irrevocable Trust Fund. Each fund type's portion of this pool is displayed on the governmental funds balance sheet as "Cash and Investments." In accordance with Minnesota Statutes, the District maintains deposits at financial institutions which are authorized by the District's Board of Education.

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

The carrying value and bank balance of the District's deposits in banks at June 30, 2019 is \$83,688,250 and \$85,653,258, respectively, and were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes. At June 30, 2019, the District's petty cash totaled \$28,282.

B. Investments

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

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and 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
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rated "A" or better
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed Investment 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
- Repurchase or reverse purchase agreements and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

In addition, investments held in the Other Postemployment Benefits Irrevocable Trust Fund may be invested as authorized by Minnesota State Statute 356A.06, Subdivision 7.

At June 30, 2019, the District had the following investments:

Investments Held at Amortized Cost -

	Amortized Cost
MN Trust Investment Shares	\$ 3,096,943
MN Trust Term Series	3,750,000
AUL Fixed-Interest Fund	4,529,563
Total Investments at Amortized Cost	<u>\$ 11,376,506</u>

MN Trust fund investments are restricted to securities described in Minnesota Statutes §118.04. MN Trust's Term Series portfolios are separate portfolios with a fixed investment term and a designated maturity. A Term Series Portfolio consists of investments in certificates of deposit, obligations of the U.S. Government, its agencies and instrumentalities, and municipal obligations. These investments are reported at amortized cost. The MN Trust Term Series has a maturity of July 25, 2019 and bears interest at a rate of 2.26%.

The AUL Fixed-Interest Fund is a fixed income investment account that is reported at amortized cost.

Investments Held at Fair Value -

	Fair Value
Federal Farm Credit Bank Note	\$ 1,697,190
Federal Home Loan Bank Note	2,987,750
Federal National Mortgage Association Note	2,669,523
Federal Home Loan Mortgage Corporation	1,881,170
GO Municipal Bonds	11,627,024
Government Obligations Money Market Fund	2,615,664
US Treasury Notes	795,005
Total Investments at Fair Value	<u>\$ 24,273,326</u>

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk

Credit ratings of the District's investments are as follows:

	AAA	AA	A	Not Rated	Total
GO Municipal Bonds	\$ 5,682,794	\$ 5,918,896	\$ 45,334	\$ -	\$ 11,627,024
Federal Home Loan Bank Note	-	2,987,750	-	-	2,987,750
Federal National Mortgage Association Note	-	2,669,523	-	-	2,669,523
Federal Home Loan Mortgage Corporation	-	1,881,170	-	-	1,881,170
Government Obligations Money Market Fund	2,615,664	1,697,190	-	-	4,312,854
AUL Fixed-Interest Fund	-	-	-	4,529,563	4,529,563
Total	<u>\$ 8,278,456</u>	<u>\$ 15,154,539</u>	<u>\$ 45,334</u>	<u>\$ 4,529,563</u>	<u>\$ 28,007,884</u>

Investments Held in Other Postemployment Benefit Trust -

	Rating	Fair Value
Mutual Funds - Equity:		
First Amer Govt Oblig Fund Cl Z	AAAam	\$ 570,620
Hartford Schroders Emerging Markets	Not Rated	202,660
iShares Core S&P Small-Cap ETF	Not Rated	196,404
iShares Core S&P Mid-Cap ETF	Not Rated	333,166
Jensen Quality Growth Fund Class Y	Not Rated	364,499
JOHCM International Select I	Not Rated	522,429
Oppenheimer Intl Small Co Fd	Not Rated	254,263
Vanguard International Value	Not Rated	430,155
Vanguard Total International Stock Index Adm	Not Rated	657,996
Vanguard Total Stock Mkt Idx Adm	Not Rated	3,206,615
Mutual Funds - Fixed Income:		
Baird Core Plus Bond Fund Institutional	Not Rated	1,589,690
DoubleLine Core Fixed Income	Not Rated	1,581,473
PGIM Total Return Bond	Not Rated	1,311,160
Vanguard Intermediate Term Inv G Adm	Not Rated	659,596
Vanguard High Yield Corporate Adm	Not Rated	329,542
		<u>\$ 12,210,258</u>

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk

The District has a formal investment policy that addresses permissible investments, portfolio diversification, and instrument maturities. Investment maturities are scheduled to coincide with projected school district cash flow needs. Within these parameters, it is the District's policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses arising from rising interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the District's investments by maturity.

Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Federal Firm Credit Bank Note	\$ 1,697,190	\$ -	\$ -	\$ 1,224,850	\$ 472,340
Federal National Mortgage Association Note	2,669,523	246,039	253,175	504,744	1,665,565
Federal Home Loan Mortgage Corporation	1,881,170	500,393	1,063,127	402,456	980,421
Federal Home Loan Bank Note	12,210,258	12,210,258	-	1,203,639	776,763
Mutual Funds	3,096,943	3,096,943	-	-	-
MN Trust Investment Shares	3,750,000	3,750,000	-	-	-
MN Trust Term Series	11,697,024	4,661,290	621,368	4,122,830	2,221,446
GO Municipal Bonds	795,005	795,005	-	-	-
US Treasury Notes	4,750,000	-	-	-	4,750,000
AUL Fixed Interest Fund	\$ 43,244,326	\$ 24,762,535	\$ 2,317,663	\$ 7,449,718	\$ 10,854,220

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. The District has no more than 5% of investments in any one issuer.

C. Balance Sheet Presentation

Bremer Bank CDs	\$ 21,000,000
Other CDs	16,365,900
Deposits	45,859,466
Cash on Hand	28,282
Savings Deposit Account	462,884
US Treasury Notes	795,005
Government Obligations Money Market Fund	2,615,664
Federal Firm Credit Bank Note	1,697,190
Federal National Mortgage Association Note	2,669,523
Federal Home Loan Mortgage Corporation	1,881,170
FHLB Note	2,987,750
MN Trust Investment Shares	3,096,943
MN Trust Term Series	3,750,000
Mutual Funds - Equity	6,738,797
Mutual Funds - Fixed Income	5,471,461
GO Municipal Bonds	11,627,024
AUL Fixed-Interest Fund	4,529,563
	<u>\$ 131,576,622</u>

C. Balance Sheet Presentation (Continued)

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

Cash and Investments - Statement of Net Position	\$ 111,296,373
Cash with Fiscal Agent - Statement of Net Position	1,842
Cash and Investments - Statement of Fiduciary Net Position	<u>20,278,407</u>
Total Cash and Investments	<u>\$ 131,576,622</u>

D. Fair Value Measurements

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and 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 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 instruments 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:

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.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Fair Value Measurements (Continued)

Assets of the District measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Federal Farm Credit Bank Note	-	\$ 1,897,190	-	\$ 1,897,190
Federal Home Loan Bank Note	-	2,987,750	-	2,987,750
Federal National Mortgage Association Note	-	2,889,523	-	2,889,523
General Home Loan Mortgage Corporation	-	1,881,170	-	1,881,170
Government Obligations	-	1,821,664	-	1,821,664
Government Obligations Money Market Fund	-	2,815,864	-	2,815,864
US Treasury Notes	785,005	-	-	785,005
Mutual Funds	12,210,258	-	-	12,210,258
Total	\$ 13,005,263	\$ 23,478,371	-	\$ 36,483,634

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

Governmental Activities	Beginning Balance	Increase	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 9,065,798	\$ 100,000	\$ (50,733)	\$ 9,115,065
Construction in Progress	9,805,911	14,596,402	(14,580,911)	9,820,992
Total Capital Assets, Not Being Depreciated	18,871,709	14,696,402	(14,531,644)	18,936,467
Capital Assets, Being Depreciated				
Land Improvements	10,537,924	750,322	(86,940)	11,211,306
Buildings and Improvements	342,954,770	19,561,743	(1,730,197)	354,786,316
Equipment	17,149,569	946,893	(307,233)	17,789,199
Leased Equipment	190,770	-	-	190,770
Total Capital Assets, Being Depreciated	370,642,263	15,498,958	(2,124,370)	383,917,311
Accumulated Depreciation for:				
Land Improvements	(6,516,739)	(489,065)	81,306	(6,924,498)
Buildings and Improvements	(144,887,779)	(10,726,829)	14,452,249	(141,162,359)
Equipment	(11,290,728)	(738,892)	285,294	(11,744,326)
Leased Equipment	-	(88,164)	-	(88,164)
Total Accumulated Depreciation	(162,715,246)	(12,053,686)	1,808,849	(162,959,083)
Total Capital Assets, Being Depreciated, Net	187,891,044	3,400,738	(321,416)	189,970,366
Governmental Activities Capital Assets, Net	\$ 206,762,333	\$ 18,097,140	\$ (14,853,060)	\$ 209,906,413

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

Governmental Activities	
Administration	\$ 3,781
District Support Services	378,808
Regular Instruction	10,446,708
Vocational Education Instruction	10,222
Special Education Instruction	93,641
Instructional Support Services	23,696
Pupil Support Services	9,541
Sites and Buildings	403,921
Food Service	224,509
Community Service	463,853
Total Depreciation Expense, Governmental Activities	\$ 12,058,660

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 CAPITAL ASSETS (CONTINUED)

In December 2018, the District sold a Multi Service Building property for a sales price of \$2,250,000. At the time of closing, the net book value of this property was \$313,582, resulting in a gain on sale of property of \$1,936,418, which is included on the Statement of Activities.

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

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

Issue Date	Interest Rate	Series Number	Original Maturity	Final Maturity	Due Within One Year	Principal Outstanding
4/5/2012	1.25% - 3.75%	2012A	\$ 15,340,000	2/1/2029	\$ -	\$ 11,335,000
3/29/2013	2.00% - 3.00%	2013A	14,970,000	2/1/2028	100,000	14,270,000
5/13/2015	1.30% - 3.25%	2015A	4,180,000	2/1/2036	180,000	3,640,000
5/13/2015	3.00% - 5.00%	2015B	9,755,000	2/1/2028	820,000	8,970,000
12/22/2015	5.00%	2015C	3,625,000	2/1/2020	980,000	960,000
3/17/2016	3.00%	2016A	11,295,000	2/1/2038	480,000	10,380,000
8/11/2016	2.50% - 5.00%	2016C	13,605,000	2/1/2037	500,000	12,900,000
11/17/2016	4.00% - 5.00%	2016D	6,950,000	2/1/2021	1,800,000	3,675,000
8/30/2017	2.625% - 5.00%	2017B	4,110,000	2/1/2033	205,000	3,960,000
12/19/2018	3.00% - 5.00%	2018A	24,130,000	2/1/2035	-	24,130,000
Total General Obligation Bonds					6,965,000	94,280,000
Bond Premiums					-	7,257,782
Certificates of Participation						
12/1/2009	3.00% - 3.50%	2009B	6,255,000	2/1/2020	720,000	720,000
12/1/2012	2.00% - 3.00%	2012B	16,455,000	2/1/2029	1,030,000	10,995,000
3/19/2014	2.00% - 3.65%	2014A	6,560,000	2/1/2034	280,000	5,235,000
8/30/2017	3.00%	2017A	7,945,000	2/1/2033	445,000	7,610,000
12/19/2018	5.00%	2018B	4,455,000	2/1/2022	3,985,000	4,455,000
Total Certificates of Participation					3,985,000	28,015,000
Capital Lease Payable					60,076	123,600
Compensated Absences Payable					1,130,577	14,534,606
					\$ 11,140,653	\$ 145,190,969

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Minimum annual principal and interest payments necessary to retire long-term debt, not including capital leases, compensated absences payable and other postemployment benefits payable are as follows:

Year Ending June 30,	General Obligation		Certificates of Participation Payable		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 6,085,000	\$ 3,472,771	\$ 3,885,000	\$ 977,564	\$ 60,076	\$ 7,094
2021	5,815,000	3,113,124	3,290,000	803,226	63,524	3,646
2022	6,440,000	2,861,741	3,415,000	674,826	-	-
2023	6,965,000	2,656,339	1,950,000	541,176	-	-
2024-2029	34,000,000	2,710,686	1,395,000	68,576	-	-
2030-2034	21,575,000	3,455,600	4,535,000	418,775	-	-
2035-2037	7,560,000	389,763	-	-	-	-
Total	\$ 94,260,000	\$ 20,519,844	\$ 29,015,000	\$ 5,488,933	\$ 123,600	\$ 10,740

C. Description of Long-Term Liabilities

General Obligation Bonds

On April 5, 2012, the District issued \$15,340,000 of General Obligation Refunding Bonds, Series 2012A. The proceeds of the issue were used, together with other District funds, to refund, in advance of maturity, \$15,090,000 of the outstanding maturities of the District's General Obligation School Buildings Bonds, Series 2004A. Future ad valorem tax levies are dedicated to the retirement of these bonds.

On March 28, 2013, the District issued \$14,870,000 of General Obligation Alternative Facilities Bonds, Series 2013A. The proceeds of the issue were used to finance the acquisition and betterment of school facilities, included with the District's ten-year facilities plan. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to the retirement of these bonds.

On May 13, 2015, the District issued \$4,180,000 of General Obligation Alternative Facilities Bonds, Series 2015A. The proceeds of the issue are being used to finance the acquisition and betterment of school facilities, included with the District's ten-year facilities plan. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to the retirement of these bonds.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

General Obligation Bonds (Continued)

On May 13, 2015, the District issued \$9,755,000 of General Obligation Refunding Bonds, Series 2015B. The proceeds of the issue were used, together with other District funds, to refund, in advance of their stated maturities, \$10,245,000 of the outstanding maturities of the District's General Obligation School Buildings Bonds, Series 2008A. The proceeds were placed into an escrow account and used to pay off the refunded bonds on their call date of February 1, 2018. The 2015B bonds were issued at a premium of \$1,549,244. The refunding resulted in an economic savings of \$846,391, with a present value of \$715,820. Assets of the Debt Service Fund, together with future ad valorem tax levies, are dedicated to the retirement of these bonds.

On December 22, 2015, the District issued \$3,625,000 of General Obligation Refunding Bonds, Series 2015C. The proceeds of the issue (including issuance premium of \$376,715) were used, to refund, in advance of their stated maturities, \$3,940,000 of the outstanding maturities of the District's General Obligation Refunding Bonds, Series 2005A. The refunding resulted in an economic savings of \$284,731, with a present value of \$277,083. Assets of the Debt Service Fund, together with future ad valorem tax levies, are dedicated to the retirement of these bonds.

On March 17, 2016, the District issued \$11,295,000 of General Obligation Alternative Facilities Bonds, Series 2016A. The proceeds of the issue are being used to finance indoor air quality and deferred maintenance projects across the District's existing facilities, which were included with the District's 10-year facilities plan. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to the retirement of these bonds.

On August 11, 2016, the District issued \$13,605,000 of General Obligation Facilities Maintenance Bonds, Series 2016C. The proceeds of the issue are being used to finance indoor air quality improvements and deferred maintenance projects across the District's existing facilities, as part of the District's 10-year facilities plan. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to the retirement of these bonds.

On November 17, 2016, the District issued \$6,950,000 of General Obligation Refunding Bonds, Series 2016D. The proceeds of the issue (including issuance premium of \$683,062) were used, to refund, in advance of their stated maturities, \$7,560,000 of the outstanding maturities of the District's General Obligation School Building Refunding Bonds, Series 2007A. Assets of the Debt Service Fund, together with future ad valorem tax levies, are dedicated to the retirement of these bonds.

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

General Obligation Bonds (Continued)

On August 30, 2017, the District issued \$4,110,000 of General Obligation Facilities Maintenance Bonds, Series 2017B. The proceeds of the issue (including issuance premium of \$453,709) will be used to finance indoor air quality improvements at the Hoover Elementary School. Assets of the Debt Service Fund, together with future ad valorem tax levies, are dedicated to the retirement of these bonds.

On December 19, 2018, the District issued \$24,130,000 of General Obligation Facilities Maintenance Bonds, Series 2018A. The proceeds of the issue will be used to fund the Bamber Valley Elementary School indoor air quality and deferred maintenance projects across the District's existing facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to the retirement of these bonds.

Certificates of Participation

These debt obligations were incurred to finance the acquisition of equipment or construction of facilities under lease purchase option agreements as allowed under Minnesota Statutes Section 126C.40 and 126C.55. The certificates will be repaid from property tax levies in the General Fund and the Debt Service Fund. The obligations have been recorded at the present value of the future minimum lease payments.

On December 1, 2009, the District issued \$6,255,000 of Full Term Refunding Certificates of Participation, Series 2009B. The proceeds of the issue were used, together with other District funds, to purchase U.S. State and Local Government securities (SLGS) that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$6,460,000 of Certificates of Participation, Series 2001B. As a result, the refunded certificates were considered to be defeased and the liability was removed from the Governmental Activities column of the Statement of Net Position.

On December 1, 2012, the District issued \$16,455,000 of Full Term Certificates of Participation, Series 2012B. \$8,790,000 of the proceeds of the issue were used, together with other District funds, to purchase U.S. State and Local Government securities (SLGS) that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$8,760,000 of Certificates of Participation, Series 2004B. As a result, the refunded certificates were considered to be defeased and the liability was removed from the Governmental Activities column of the Statement of Net Position.

On March 19, 2014, the District issued \$6,560,000 of Full Term Certificates of Participation, Series 2014A. The proceeds of the issue were used to finance the construction of additional kindergarten classroom space and remodeling of their alternative learning center building. Scheduled future ad valorem tax levies are dedicated to the retirement of these certificates.

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

On August 30, 2017, the District issued \$7,945,000 of Certificates of Participation, Series 2017A. The proceeds of the issue were used to finance the construction of an addition to the Hoover Elementary School. The certificates bear interest at a rate of 3.00%, with maturities extending through February 1, 2033.

On December 19, 2018, the District issued \$4,455,000 of Certificates of Participation, Series 2018B. The proceeds of these certificates will be used to finance the purchase of student computers, classroom audio/visual equipment, and upgrade infrastructure for the District's network, per the approved 2019-2021 Technology Lease Levy Plan. The certificates bear interest at a rate of 5.00%, with maturities extending through February 1, 2022.

Capital Lease Payable

On July 15, 2018, the District entered into a capital lease agreement for firewall technology equipment for a total lease obligation of \$190,770. The lease has a term of three years requiring annual payments of \$67,170 thru July 15, 2020. The leased capital asset is capitalized at a cost of \$190,770, with accumulated depreciation of \$38,194 as of June 30, 2019. Amortization expense of the period is included in depreciation expense.

Compensated Absences Payable

The amount of the estimated obligation at June 30, 2019 is \$14,534,606. The District's General Fund finances compensated absences on a pay-as-you-go basis.

D. Changes in Long-Term Liabilities

	June 30, 2018	Additions	Retirements	June 30, 2019
Bonds Payable	\$ 75,905,000	\$ 24,130,000	\$ 5,775,000	\$ 94,260,000
Issuance Premiums	6,478,867	1,664,320	885,425	7,257,762
Certificates of Participation	28,225,000	4,455,000	3,665,000	29,015,000
Capital Lease Payable	-	190,770	67,170	123,600
Compensated Absences Payable	14,388,885	1,428,884	1,293,163	14,534,606
Total	\$ 125,007,752	\$ 31,868,974	\$ 11,695,758	\$ 145,190,968

NOTE 6 RISK MANAGEMENT

Self-Insurance

The District acts as a self-insurer for certain insurable risks related to its employee health insurance, dental insurance, and workers' compensation programs. Losses and claims are accrued as incurred. The District has purchased reinsurance for amounts in excess of \$500,000 per family and approximately \$31,400,000 for annual aggregate health plan claims and for amounts in excess of \$500,000 for annual aggregate workers' compensation plan claims.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6

RISK MANAGEMENT (CONTINUED)

Self-Insurance (Continued)

All known claims and estimated claims incurred but not reported have been accrued as a liability. District liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

An analysis of claims for the years ended June 30, 2019 and 2018 are as follows:

Self-Insurance Claims	Health and Dental	Workers' Compensation	Total
Beginning of Fiscal Year Liability - July 1, 2018	\$ 2,222,666	\$ 561,806	\$ 2,804,472
Current Year Claims, Changes in Estimates, and Other Charges	39,060,712	933,164	39,993,876
Payments on Claims	<u>(38,623,641)</u>	<u>(1,241,510)</u>	<u>(39,765,151)</u>
End of Fiscal Year Liability - June 30, 2019	<u>\$ 2,759,737</u>	<u>\$ 273,460</u>	<u>\$ 3,033,197</u>
Beginning of Fiscal Year Liability - July 1, 2017	\$ 2,319,664	\$ 171,526	\$ 2,491,190
Current Year Claims, Changes in Estimates, and Other Charges	26,621,267	1,043,740	27,665,007
Payments on Claims	<u>(26,718,265)</u>	<u>(633,460)</u>	<u>(27,351,725)</u>
End of Fiscal Year Liability - June 30, 2018	<u>\$ 2,222,666</u>	<u>\$ 561,806</u>	<u>\$ 2,804,472</u>

NOTE 7

RESTRICTED FUND BALANCES

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

A. Staff Development

Represents unspent staff development revenues set aside from General Education Revenue that were restricted for staff development.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7

RESTRICTED FUND BALANCES (CONTINUED)

B. Projects Funded by Certificates of Participation

Represents the remaining resources available for projects funded by certificates of participation with related lease levy authority under Minnesota Statutes, section 126C.40.

C. Operating Capital

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

D. Community Education Programs

Represents accumulated resources available to provide general community education programming.

E. Early Childhood and Family Education Programs

Represents accumulated resources available to provide services for early childhood family education programming.

F. Area Learning Center

Represents amounts restricted for students attending area learning centers. The amount restricted may only be spent on program costs associated with the area learning center, as specified in Minnesota Statutes, section 123A.05.

G. School Readiness

Represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

H. Adult Basic Education

Represents the balance of carryover monies for all activity involving Adult Basic Education (ABE). This would include all state aid and any grants or local funding used in support of ABE.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 RESTRICTED FUND BALANCES (CONTINUED)

- I. Safe Schools – Crime**
Represents available resources to be used for crime prevention, drug abuse, student and staff safety, and violence prevention measures.
- J. Basic Skills Extended Time**
Represents resources available for basic skills extended time uses listed in Minnesota Statutes, section 126C.15, subdivision 1.
- K. Long Term Facilities Maintenance**
Represents resources available to be used for long-term facilities maintenance projects in accordance with the District's 10-year plan.
- L. Medical Assistance**
Represents resources available to be used for Medical Assistance expenditures.
- M. Other Restricted Fund Balance**
Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

NOTE 8 ASSIGNED FUND BALANCES

Assignment of the fund balance indicates that portion of the fund balance that reflects a tentative plan for future use of the funds. The following is a summary of the assigned fund balances:

50% Rule	\$ 6,385
Special Education Bus Replacement	425,553
Carryover of Unspent School Supply Allocations	927,647
Post-Secondary Enrollment Options Joint Ventures	239,625
Carryover of Unspent Memorial Donations Received	16,546
Carryover of Unspent Classroom Fees and Donations	142,842
Band Uniforms	279,422
Carryover of Unallocated Site Funds	999,929
Separation/Retirement	1,153,951
Facilities Vehicle Replacement	328,814
Total	<u>\$ 4,520,714</u>

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 DEFINED BENEFIT PENSION PLANS

- A. Plan Description**
The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA and TRA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*. PERA and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code (IRC).
 - 1. **General Employees Retirement Plan**
PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.
 - 2. **Teachers Retirement Fund (TRA)**
TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The board consists of four active members, one retired member, and three statutory officials.
Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the city of St. Paul and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.
- B. Benefits Provided**
PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.
PERA: Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.
TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

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

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

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

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

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

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. **TRA Benefits (Continued)**

With these provisions:

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

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

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

or

Tier II Benefits

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

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

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

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions

- General Employees Fund Contributions
Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contributions rates can only be modified by the state legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019 were \$2,576,214. The District's contributions were equal to the required contributions for each year as set by state statute.
- TRA Contributions
Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for the fiscal year were:

	2019		2018	
	Employee	Employer	Employee	Employer
Basic	11.00 %	11.50 %	11.00 %	11.50 %
Coordinated	7.50 %	7.71 %	7.50 %	7.50 %

The District's contributions to TRA for the plan's fiscal year ended June 30, 2019, were \$8,027,800. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

- General Employees Fund Pension Costs
At June 30, 2019, the District reported a liability of \$28,325,995 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the district totaled \$929,058, for a total net pension liability of \$29,255,053 associated with the District. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the District's proportion was 0.5106% which was a decrease of 0.0174% from its proportionate share measured as of June 30, 2017.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

- General Employees Fund Pension Costs (Continued)
For the year ended June 30, 2019, the District recognized pension expense of \$1,422,949 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$216,654 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2019, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 749,743	\$ 826,147
Changes in Actuarial Assumptions	2,705,851	3,182,728
Net Difference Between Projected and Actual Earnings on Plan Investments	-	2,894,468
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	750,237	840,477
District Contributions Subsequent to the Measurement Date	2,576,214	-
Total	\$ 6,782,045	\$ 7,743,820

Of the resources related to pensions resulting from District contributions subsequent to the measurement date, \$2,576,214 is reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 1,075,105
2021	(1,443,308)
2022	(2,578,573)
2023	(591,213)

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2019, the District reported a liability of \$113,470,061 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2018, 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 1.8066% at the end of the measurement period and 1.8189% for the beginning of the period.

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

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 113,470,061
State's Proportionate Share of the Net Pension Liability Associated with the District	10,660,761

For the year ended June 30, 2019, the District recognized negative pension expense of \$22,064,050. It also recognized \$7,440,522 as a decrease to pension expense and negative grant revenue for the support provided by direct aid.

At June 30, 2019, 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:

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 1,210,293	\$ 2,288,305
Changes in Actuarial Assumptions	146,510,851	193,480,518
Net Difference Between Projected and Actual Earnings on Plan Investments	-	8,799,582
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	20,431,478	1,795,358
District Contributions Subsequent to the Measurement Date	8,027,800	-
Total	\$ 176,180,422	\$ 206,363,763

Of the resources related to pensions resulting from District contributions to TRA subsequent to the measurement date, \$8,027,800 is reported as deferred outflows and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 25,420,189
2021	8,373,252
2022	1,176,938
2023	(42,268,284)
2024	(30,913,236)

3. Aggregate Pension Costs

	TRA	GERF	Total
Net Pension Liability	\$ 113,470,061	\$ 28,325,995	\$ 141,796,056
Deferred Outflows of Resources	176,180,422	6,782,045	182,962,467
Deferred Inflows of Resources	206,363,763	7,743,820	214,107,583
Pension Expense	(29,504,572)	1,639,603	(27,864,969)

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

GERF and TRA Assumptions	GERF	TRA
Assumptions	2.50% per year	2.50 %
Inflation	11.25% after 1 year of service decreasing to 3.25% per year after 26 years	2.85% for 10 Years and 3.25% Thereafter
Salary Growth	7.50 %	7.50 %
Investment Rate of Return		

PERA Salary increases were based on a service-related table. PERA mortality rates for active members, retirees, survivors, and disabilities for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. PERA cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan and 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually for TRA.

TRA pre-retirement mortality rates were based on the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale. Post-retirement mortality rates were based on the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. Post-disability mortality rates were based on the RP-2014 disabled retiree mortality table, without adjustment. TRA cost of living benefit increases 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually. Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions for PERA occurred in 2018:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

The following changes in actuarial assumptions for TRA occurred in 2018:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next four years, (7.92% in 2019, 8.13% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate was changed from 5.12% to 7.5%.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method 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 allocation percentages.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	36.00 %	5.10 %
International Equity	17.00 %	5.30 %
Bonds	20.00 %	0.75 %
Alternative Assets	25.00 %	5.90 %
Cash	2.00 %	- %
Totals	<u>100.00 %</u>	

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total General Employees Plan pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the TRA pension liability was 7.50%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2018's contribution rate, contributions from school districts will be made at current statutory required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

G. Pension Liability Sensitivity

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

GERF AND TRA PENSION LIABILITY

Description	1% Decrease	Current	1% Increase in
	6.50 %	Discount Rate	Discount Rate
		7.50 %	8.50 %
GERF Discount Rate			
District's Proportionate Share of the GERF Net Pension Liability	\$ 46,033,368	\$ 28,325,995	\$ 13,709,064
TRA Discount Rate			
District's Proportionate Share of the TRA Net Pension Liability	\$ 180,076,527	\$ 113,470,061	\$ 58,520,165

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary's net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mmpera.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.

NOTE 10 DEFINED CONTRIBUTION PLAN

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the Plan). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2019, 2018, and 2017 are \$1,161,721, \$739,329, and \$701,584, respectively. The related employee contributions were \$3,420,187, \$2,929,216, and \$2,812,426 for the years ended June 30, 2019, 2018, and 2017, respectively.

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates and administers a single-employer defined benefit other postemployment benefit plan (the Plan) that provides health insurance to eligible employees and their spouses through the District's self-insured health insurance plan. There are 2,515 active participants and 70 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 District contributes 50% - 100% of the cost of current-year premiums for eligible retired plan members and their spouses. The Plan does not issue a publicly available financial report.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

B. Funding Policy

The District has assets designated for OPEB. These assets are in a qualified irrevocable trust which is included as a fiduciary fund in these financial statements. The District's investment policy is to follow state statutes as listed in Note 3. Benefit payments equal to the annual direct subsidy plus implicit subsidy are assumed to be made from the trust.

Contribution requirements are also negotiated between the District and union representatives. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement. For fiscal year 2019, the District was reimbursed by its irrevocable trust for explicit and implicit cost of benefits for retirees. For fiscal year 2019, the District contributed \$2,098,209 to the plan.

C. Net OPEB Liability (Asset) of the District

The components of the net OPEB liability of the District at June 30, 2019 were as follows:

Total OPEB Liability	\$ 22,052,750
Plan Fiduciary Net Position	12,202,205
District's net OPEB Liability (Asset)	<u>\$ 9,850,545</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	55.33 %

D. Actuarial Methods and Assumptions

The long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that (1) the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and (2) OPEB plan assets are expected to be invested using a strategy to achieve that return, and a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AAA/Aa or higher (or equivalent quality on another rating scale), to the extent that the conditions above are not met.

The District's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018. Liabilities in this report were calculated as of the valuation date and rolled forward to the measurement date using the standard actuarial roll-forward techniques.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Actuarial Methods and Assumptions (Continued)

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 %
Salary Increases	3.00 %
Investment Rate of Return	6.20 %
20-Year Municipal Bond Yield	3.10 %
Health Care Trend Rates	6.50% decreasing to 5.00% over 6 years

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2017 to June 30, 2018.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.50%).

Best estimates of geometric real and nominal rates of return for each major asset class included in the OPEB plan's asset allocation as of the measurement date are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Fixed Income	45.00 %	5.10 %
Domestic Equity	33.00	7.50
International Equity	17.00	7.40
Real Estate and Alternatives	-	-
Cash and Equivalents	5.00	3.50
Total	<u>100.00 %</u>	<u>6.20</u>
Reduced for Assumed Investment Expense		-
Net Assumed Investment Return (Weighted Avg. Rounded to 1/4%)		<u>6.20 %</u>

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Actuarial Methods and Assumptions (Continued)

The discount rate used to measure the total OPEB liability was 5.40%. The projection of cash flows and OPEB trust assets used to determine the discount rate were based on recent employer contribution history and their stated funding policy. The OPEB trust's long-term assumed investment return was used to discount projected benefit payments for as long as projected trust assets are available to fund OPEB payments. Once projected trust assets are exhausted, the municipal bond index rate of 3.10% was applied to the remaining expected benefit payments.

The expected employer asset return is based on the long-term expected return on short-term/cash-equivalent assets using our capital market assumption model.

Since the most recent valuation, the following changes have been made:

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The expected long-term investment return was changed from 6.80% to 6.20%
- The discount rate was changed from 6.10% to 5.40%

E. Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at July 1, 2018	\$ 18,604,673	\$ 10,561,187	\$ 8,043,486
Changes for the Year:			
Service Cost	1,071,606	-	1,071,606
Interest Cost	1,163,167	-	1,163,167
Assumption Changes	1,133,838	-	1,133,838
Differences Between Expected and Actual Experience	1,313,660	-	1,313,660
Contributions-Employer	-	2,098,209	(2,098,209)
Net Investment Income	-	782,032	(782,032)
Benefit Payments	(1,234,194)	(1,234,194)	-
Administrative Expense	-	(5,029)	5,029
Net Changes	3,448,077	1,641,018	1,807,059
Balances at June 30, 2019	\$ 22,052,750	\$ 12,202,205	\$ 9,850,545

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Changes in the Net OPEB Liability (Continued)

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (4.40%)	Discount Rate (5.40%)	1% Increase (6.40%)
Net OPEB Liability (Asset)	\$ 11,284,474	\$ 9,850,545	\$ 8,495,837

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% point lower (5.50% decreasing to 4.0%) or 1% point higher (7.50% decreasing to 6.0%) than the current healthcare cost trend rates:

	1% Decrease (5.50%) Decreasing to 4.00% over 6 Years	Healthcare Cost Current Trend Rates (6.50%) Decreasing to 5.00% over 6 Years	1% Increase (7.50%) Decreasing to 6.00% over 6 Years
Net OPEB Liability (Asset)	\$ 7,766,267	\$ 9,850,545	\$ 12,284,401

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,899,893. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Liability		\$ 1,125,994	\$ -
Change of Assumptions		971,861	936,069
Net Difference Between Projected and Actual Investment Earnings		N/A	104,617
Contributions Between Measurement Date and Reporting Date		\$ 2,097,855	\$ 1,040,676
Total		\$ 4,195,710	\$ 2,081,362
Year	Annual Money-Weighted Rate of Return, Net of Investment Expense		
2019	6.20%		
2018	6.80%		
2017	2.70%		

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Changes in the Net OPEB Liability (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Future Recognition</u>
2020	\$ 127,517
2021	153,117
2022	136,952
2023	162,430
Thereafter	349,646
Total	<u>\$ 1,057,179</u>

NOTE 12 FLEXIBLE BENEFIT PLAN

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

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

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

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

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

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 13 OPERATING LEASES

The District has entered into lease agreements for space for vocational education for secondary students, copiers, a warehouse space for storage, and gymnasium space. Additionally, the District entered into a fiber optic lease agreement that includes various fiber facilities to operate the District's network infrastructure.

The following is a schedule by years of future minimum rental payments required under the operating leases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 777,990
2021	479,741
2022	368,342
2023	158,347
2024	162,024
2025-2028	341,292
Total	<u>\$ 2,287,736</u>

The District had \$793,014 of expenditures for these leases in fiscal year 2019.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Federal and State Programs

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

Contingencies

The District is subject to legal proceedings and claims which arise in the ordinary course of business. Management believes the resolution of these matters will not have a material impact on the District.

Commitments

In March 2019 the District approved a purchase agreement for 150 acres of land for the purpose of building a new middle school. The purchase price is \$2,740,000 and the purchase agreement is contingent upon approval of the District's upcoming referendum on November 5, 2019.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 15 JOINT USE AGREEMENT

Effective December 1998, the City of Rochester and the District entered into a joint use agreement to provide for the operation and maintenance of a volleyball facility. The facility is operated by the City and maintained primarily by the District. Under the terms of the agreement, the District contributed approximately 45,000 square feet of land and the City obtained a grant from the state of Minnesota to finance construction of the facility. The City and the District each split 50% of the profits or deficits of the facility. For the year ended June 30, 2019, the District paid \$3,409.

NOTE 16 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2019, corrections to the prior year financial statements were made to the presentation of the District's Health Reimbursement Account (HRA) Plan Trust. The presentation was changed to reflect the District's HRA Plan Trust as Fiduciary activity of the District. As a result of this restatement, \$7,553,882 was added to beginning net position, as shown in the Statement of Changes in Fiduciary Net Position.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2019, 2018 AND 2017**

	2019	2018	2017
Total OPEB Liability			
Service Cost	\$ 1,071,606	\$ 944,072	\$ 1,105,176
Interest	1,163,167	953,742	913,146
Changes of Benefit Terms	1,313,660	-	-
Differences Between Expected and Actual Experience	1,133,838	(1,310,485)	-
Changes of Assumptions	(1,234,194)	(983,545)	(1,063,082)
Benefit Payments	3,448,077	(406,216)	955,240
Net Change in Total OPEB Liability	18,604,673	19,010,889	18,055,649
Total OPEB Liability - Beginning	18,604,673	19,010,889	18,055,649
Total OPEB Liability - Ending (a)	\$ 22,052,750	\$ 18,604,673	\$ 19,010,889
Plan Fiduciary Net Position			
Employer Contributions	\$ 2,098,209	\$ 2,721,576	\$ 1,927,097
Plan Member Contributions	-	-	-
Net Investment Income	782,032	525,756	604,888
Benefits Paid	(1,234,194)	(983,545)	(1,063,082)
Administrative Expense	(5,029)	(4,482)	(3,998)
Net Change in Plan Fiduciary Net Position	1,641,018	2,249,305	1,464,905
Plan Fiduciary Net Position - Beginning	10,561,187	8,311,882	6,846,977
Plan Fiduciary Net Position - Ending (b)	\$ 12,202,205	\$ 10,561,187	\$ 8,311,882
District's Net OPEB Liability - Ending (a) - (b)	\$ 9,850,545	\$ 8,043,486	\$ 10,699,007
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	55.33%	56.77%	43.72%
Covered-Employee Payroll	\$ 128,288,152	\$ 128,363,319	\$ 124,624,581
District's Net OPEB Liability as a Percentage of Covered-Employee Payroll	7.68%	6.27%	8.58%

*The District implemented GASB Statement Nos. 74 and 75 in fiscal year 2017, and the above table will be expanded to 10 years of information as the information becomes available.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF MONEY-WEIGHTED RATE OF RETURN ON PLAN ASSETS - OPEB
JUNE 30, 2019**

Year	Annual Money-Weighted Rate of Return, Net of Investment Expense
2019	6.20%
2018	6.80%
2017	2.70%

*The District implemented GASB Statements Nos. 74 and 75 in fiscal year 2017, and the above table will be expanded to 10 years of information as the information becomes available.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST FIVE MEASUREMENT DATES**

PERA Schedule of the District's Proportionate Share of the Net Pension Liability	Measurement Date June 30,			
	2018	2017	2016	2015
District's Proportionate Share of the Net Pension Liability	0.5108%	0.5260%	0.5338%	0.5136%
District's Proportionate Share of the Net Pension Liability	\$ 26,325,985	\$ 33,707,172	\$ 40,906,061	\$ 26,062,888
State's Proportionate Share of the Net Pension Liability Associated with District	929,058	423,813	534,184	-
Total	\$ 29,255,053	\$ 34,130,985	\$ 41,440,225	\$ 26,062,888
District's Covered Payroll	\$ 34,316,320	\$ 34,012,860	\$ 31,260,093	\$ 29,547,716
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	85.25%	100.35%	132.57%	88.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.90%	78.20%

TRA Schedule of the District's Proportionate Share of the Net Pension Liability	Measurement Date June 30,			
	2018	2017	2016	2015
District's Proportionate Share of the Net Pension Liability	1.0065%	1.1889%	1.7229%	1.6713%
District's Proportionate Share of the Net Pension Liability	\$ 113,470,061	\$ 963,085,435	\$ 410,952,758	\$ 103,396,434
State's Proportionate Share of the Net Pension Liability Associated with District	10,650,761	35,007,825	41,248,130	12,661,326
Total	\$ 124,120,822	\$ 998,093,260	\$ 452,200,948	\$ 116,057,760
District's Covered Payroll	\$ 99,811,600	\$ 97,914,728	\$ 89,619,667	\$ 84,887,922
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	113.65%	370.82%	458.55%	121.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	51.57%	44.88%	76.80%

The District implemented GASB Statement No. 68 in fiscal year 2015, and the above table will be expanded to 10 years of information as the information becomes available.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST FIVE FISCAL YEARS**

PERA Schedule of District Contributions Last Four Fiscal Years	Fiscal Year Ending June 30,			
	2019	2018	2017	2016
Statutorily Required Contribution	\$ 2,576,214	\$ 2,573,724	\$ 2,550,866	\$ 2,344,507
Contributions in Relation to the Statutorily Required Contribution	(2,576,214)	(2,573,724)	(2,550,866)	(2,344,507)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 34,347,824	\$ 34,316,320	\$ 34,012,860	\$ 31,260,093
Contributions as a Percentage of Covered Payroll	7.500%	7.500%	7.500%	7.500%

TRA Schedule of District Contributions Last Four Fiscal Years	Fiscal Year Ending June 30,			
	2019	2018	2017	2016
Statutorily Required Contribution	\$ 8,027,800	\$ 7,465,870	\$ 7,343,695	\$ 6,727,475
Contributions in Relation to the Statutorily Required Contribution	(8,027,800)	(7,465,870)	(7,343,695)	(6,727,475)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 104,146,527	\$ 98,811,600	\$ 97,914,728	\$ 88,619,667
Contributions as a Percentage of Covered Payroll	7.71%	7.50%	7.50%	7.50%

The District implemented GASB Statement No. 68 in fiscal year 2015, and the above table will be expanded to 10 years of information as the information becomes available.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

A. General Employees Fund

- 2018
 - The mortality projection scale was changed from MP-2015 to MP-2017.
 - The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.
- 2017
 - The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
 - The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5 % per year thereafter.
- 2016
 - The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
 - The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
 - Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Teachers Retirement Association for the year ended June 30:

A. Coordinated Plan

- 2018
 - The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
 - Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
 - The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
 - Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
 - Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
 - The employer contribution rate is increased each July 1 over the next 4 years, (7.92% in 2019, 8.13% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- 2017
 - The single discount rate was changed from 5.12% to 7.5%
- 2016
 - The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
 - The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.
 - The investment return assumption was changed from 8.0% to 7.5%.
 - The price inflation assumption was lowered from 2.75% to 2.5%.
 - The payroll growth assumption was lowered from 3.5% to 3.0%.
 - The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
 - The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
 - The single discount rate was changed from 4.66% to 5.12%
- 2016
 - 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 stay level at 2.0% annually.
 - The single discount rate was changed from 8.0% to 4.66%.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the District's Postemployment Benefits Plan for the year ended June 30:

- 2019
 - The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
 - The expected long-term investment return was changed from 6.80% to 6.20%
 - The discount rate was changed from 6.10% to 5.40%.
- 2018
 - The discount rate was changed from 4.90% to 6.10%.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2019

	Final Budget	Actual Amounts	Over (Under) Final Budget
REVENUES			
Local Sources:			
Earnings and Investments	\$ 378,000	\$ 427,078	\$ 49,078
Other	81,228	155,127	73,899
Total Revenues	459,228	582,205	122,977
EXPENDITURES			
Current:			
Purchased Services	6,294,797	2,128,137	(4,166,660)
Supplies and Materials	11,934	-	(11,934)
Capital Outlay	26,540,189	11,592,444	(14,947,745)
Debt Service:			
Interest and Fiscal Charges	-	-	-
Total Expenditures	32,846,920	13,718,581	(19,128,339)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(32,387,692)	(13,136,376)	19,251,316
OTHER FINANCING SOURCES			
Issuance of Bonds	24,581,720	24,130,000	(451,720)
Issuance Premium	-	451,720	451,720
Issuance of Certificates of Participation	-	-	-
Total Other Financing Sources	24,581,720	24,581,720	-
Net Change in Fund Balance	\$ (7,805,972)	11,445,344	\$ 19,251,316
FUND BALANCE			
Beginning of Year		7,805,971	
End of Year		\$ 19,251,315	

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
COMBINING STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019**

	Health and Dental Care Trust	Workers' Compensation	Paper Tiger	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 1,104,265	\$ 164,780	\$ 176,120	\$ 1,445,165
Investments	12,773,996	526,843	-	13,300,839
Accounts Receivable	334	-	1,057	1,391
Interest Receivable	155,198	3,083	-	158,281
Prepays	-	15,013	17,825	32,838
Total Assets	14,033,793	709,719	195,002	14,938,514
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	61,038	13,564	20,346	94,948
OPEB	11,540	2,357	3,612	17,509
Total Deferred Outflows	72,578	15,921	23,958	112,457
LIABILITIES				
Current Liabilities				
Salaries Payable	18,389	3,926	6,647	28,972
Accounts Payable	1,260,117	4,164	25,568	1,289,849
Claims Payable - Medical	2,759,737	273,460	-	3,033,197
Total Current Liabilities	4,038,253	281,550	32,215	4,352,018
Non Current Liabilities				
Net Pension Liability	254,934	56,652	84,978	396,564
Compensated Absences Payable	58,871	5,486	18,815	83,172
Net OPEB Liability	61,088	11,068	16,960	89,116
Total Non Current Liabilities	374,893	73,206	120,753	568,852
Total Liabilities	4,413,146	354,756	152,968	4,920,870
DEFERRED INFLOWS OF RESOURCES				
Pension Related	69,694	15,488	23,231	108,413
OPEB	5,724	1,169	1,792	8,685
Total Deferred Inflows	75,418	16,657	25,023	117,098
NET POSITION				
Restricted for:				
Health and Dental Insurance Trust	9,617,807	-	-	9,617,807
Unrestricted	-	354,227	40,969	395,196
Total Net Position	\$ 9,617,807	\$ 354,227	\$ 40,969	\$ 10,013,003

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
REVENUES			
Local Sources:			
Property Taxes	\$ 8,961,093	\$ 8,951,255	\$ (9,838)
Earnings and Investments	93,000	125,648	32,648
State Sources	670,892	677,211	6,319
Total Revenues	9,724,985	9,754,114	29,129
EXPENDITURES			
Debt Service:			
Bond Principal	7,140,000	7,140,000	-
Bond Interest	2,761,499	2,757,738	(3,761)
Paying Agent Fees and Other	15,000	12,550	(2,450)
Total Expenditures	9,916,499	9,910,288	(6,211)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(191,514)	(156,174)	35,340
OTHER FINANCING SOURCES (USES)			
Sale of Real Property	-	-	-
Issuance Premium	949,441	949,441	-
Payment to Refunded Bond Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	949,441	949,441	-
Net Change in Fund Balance	\$ 757,927	793,267	\$ 35,340
FUND BALANCE			
Beginning of Year	2,150,917	2,150,917	-
End of Year	\$ 2,944,184	\$ 2,944,184	-

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019**

	Health and Dental Care Trust	Workers' Compensation	Paper Tiger	Total
OPERATING REVENUES				
Charges for Services:				
Premiums, Net of Refunds	\$ 33,008,693	\$ 1,067,223	\$ -	\$ 34,075,916
Other Services	-	-	434,707	434,707
Total Operating Revenues	33,008,693	1,067,223	434,707	34,510,623
OPERATING EXPENSES				
Salaries	313,520	62,431	100,419	476,370
Employee Benefits	114,213	26,236	31,848	172,297
Claim Expense	39,060,712	933,068	-	39,993,780
Purchased Services	8,877	-	175,521	184,398
Supplies and Materials	7,565	645	111,873	120,083
Other Expenses	150	-	49	199
Total Operating Expenses	39,505,037	1,022,380	419,710	40,947,127
Operating Income (Loss)	(6,496,344)	44,843	14,987	(6,436,504)
NONOPERATING INCOME				
Earnings on Investments	442,468	38,450	3,836	484,754
Net Income Before Transfers	(6,053,876)	83,293	18,833	(5,951,750)
Transfers Out	-	(500,000)	-	(500,000)
Change in Net Position	(6,053,876)	(416,707)	18,833	(6,451,750)
Net Position - Beginning	15,671,683	770,934	22,136	16,464,753
Net Position - Ending	\$ 9,617,807	\$ 354,227	\$ 40,969	\$ 10,013,003

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019**

	Health and Dental Care Trust	Workers' Compensation	Paper Tiger	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Interfund Services Provided	\$ 33,008,359	\$ 1,067,223	\$ 433,712	\$ 34,509,294
Payments for Administrative Costs	(441,417)	(91,262)	(137,225)	(669,904)
Payments for Claims	(38,523,641)	(1,241,510)	-	(39,765,151)
Payments for Other Purchased Services	279,334	-	(176,125)	103,209
Payments for Services, Supplies, and Materials	(3,555)	(15,658)	(111,922)	(131,135)
Net Cash Provided (Used) by Operating Activities	(6,680,920)	(281,207)	8,440	(6,953,687)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	-	(500,000)	-	(500,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Maturities of Investment Securities	1,846,042	-	-	1,846,042
Purchase of Investment Securities	(5,234,533)	(26,141)	-	(5,260,674)
Interest Received	389,242	38,281	3,836	431,359
Net Cash Provided (Used) by Investing Activities	(3,019,249)	12,140	3,836	(3,003,273)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,700,169)	(769,067)	12,276	(9,456,960)
Cash and Cash Equivalents - Beginning	9,804,434	933,847	163,844	10,902,125
Cash and Cash Equivalents - Ending	\$ 1,104,265	\$ 164,780	\$ 176,120	\$ 1,445,165
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (6,496,344)	\$ 44,843	\$ 14,987	\$ (6,436,504)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
(Increase) Decrease in Accounts Receivable	(334)	-	(995)	(1,329)
(Increase) Decrease in Prepaid Items	4,160	(15,013)	(17,825)	(28,678)
(Increase) Decrease in Deferred Outflows	21,136	4,904	7,280	33,320
Increase (Decrease) in Salaries Payable	(435)	190	(110)	(355)
Increase (Decrease) in Accounts Payable	268,211	(68)	17,221	305,336
Increase (Decrease) in Claims Payable	537,071	(308,346)	(68)	228,725
Increase (Decrease) in Net Pension Liability	(51,451)	(10,162)	(16,144)	(77,757)
Increase (Decrease) in Compensated Absences	558	715	343	1,616
Increase (Decrease) in Net OPEB Liability	12,430	1,395	2,223	16,048
Increase (Decrease) in Deferred Inflows	4,058	983	1,450	6,471
Total Adjustments	815,424	(326,050)	(6,557)	482,817
Net Cash Provided (Used) by Operating Activities	\$ (6,680,920)	\$ (281,207)	\$ 8,440	\$ (6,953,687)

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Center/Program	CFDA Number	Agency or Pass-through Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture Pass-Through Minnesota Department of Education Child Nutrition Cluster: Nonmeal Assistance (Commodities) Cafeteria School Lunch Program National School Lunch Program After School Snack Total CFDA 10.555	10.555 10.555 10.555 10.555 10.555	01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000		\$ 594,003 2,893,179 29,669 3,417,051 906,809 4,633,608
Total Child Nutrition Cluster Child and Adult Care Food Program Fresh Fruit and Vegetable Grant Program Total U.S. Department of Agriculture	10.558 10.562	01-6535-000-000 01-6535-000-000		132,462 69,729 4,832,029
U.S. Department of Education Pass-Through Minnesota Department of Education Cash Assistance: Special Education Cluster: Special Education Grants to States Title I Grants to Local Educational Agencies Total Special Education Cluster Adult Basic Education State Grant Program Title I Grants to Local Educational Agencies Neglected and Delinquent Children Total CFDA 84.010	84.027 84.173 84.022 84.010 84.010A	01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000	\$ 3,034,960 68,653	3,101,769 128,865
Total CFDA 84.010 Title I, Part C - Migrant Education - State Career and Technical Education - Basic Grants to States (Perkins IV) Indian Elementary and Secondary School Assistance Supporting Children and Families with Disabilities Title X, Part C - Sub B - Education for Homeless Children and Youth Title IV, Part B - Twenty-First Century Community Learning Centers Title II - Improving Teacher Quality State Grants Acquisition Grants Total U.S. Department of Education	84.011 84.048 84.060 84.181 84.198 84.424 84.287 84.365 84.367	01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000 01-6535-000-000	\$ 96,849	2,780,171 138,767 178,864 13,545 95,948 37,684 245,944 684,006 259,383 415,390 8,090,229
U.S. Department of Homeland Security Pass-Through Minnesota Literacy Council Cash Assistance: Citizenship Education and Training Total Cash Assistance - U.S. Department of Homeland Security	97.010	*	\$ 95,849	28,454 28,454 12,840,812
Total Federal Awards Expended			\$ 95,849	

* - Pass-Through Number unavailable

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Independent School District No. 535 (the District) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE 2 BASIS OF ACCOUNTING

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying Notes to Schedule of Expenditures of Federal Awards.

Board of Education
Independent School District No. 535



CliftonLarsonAllen LLP
CL.Aconnect.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 535'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*.

District's Response to Finding

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

Purpose of this Report

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

CliftonLarsonAllen LLP

Rochester, Minnesota
November 4, 2019

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

Board of Education
Independent School District No. 535
Rochester, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 535, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Independent School District No. 535's basic financial statements, and have issued our report thereon dated November 4, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 535'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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a material weakness.



A member of
Nexia
International

Board of Education
Independent School District No. 535

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 535 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Independent School District No. 535 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 535's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Rochester, Minnesota
November 4, 2019



CliftonLarsonAllen LLP
CL.Aconnect.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Education
Independent School District No. 535
Rochester, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 535's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 535's major federal programs for the year ended June 30, 2019. Independent School District No. 535's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 535's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 535's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Independent School District No. 535's compliance.





CliftonLarsonAllen LLP
CL-Connect.com

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 535
Rochester, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 535, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 4, 2019.

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

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 535 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 535's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Rochester, Minnesota
November 4, 2019



**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued:	Unmodified		
2. Internal control over financial reporting:			
a. Material weakness(es) identified?	X	yes	no
b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?		yes	X
3. Noncompliance material to financial statements noted?		yes	X

Federal Awards

1. Internal control over major federal programs:			
a. Material weakness(es) identified?		yes	X
b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?		yes	X
2. Type of auditors' report issued on Compliance for major federal programs:	Unmodified		
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		yes	X

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555 and 10.559	Child Nutrition Cluster

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2019**

Section I – Summary of Auditors' Results (Continued)

Identification of Major Federal Programs (Continued)

5. Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000
6. Auditee qualified as low-risk auditee? **x** **yes** **no**

Section II – Financial Statement Findings

Finding 2019-001

Type of Finding: Material Weakness in internal controls over financial reporting for fiduciary funds.

Criteria: An effective internal control system over financial reporting provides reasonable assurance that assets are safeguarded against loss and theft, and that reliable financial statements are prepared in accordance with the appropriate accounting standards and in compliance with applicable laws and regulations.

Condition/Context: A restatement was necessary to properly present the District's Health Reimbursement Account Plan Trust as a fiduciary activity.

Effect: Beginning net position of the District's fiduciary activities was restated. The restatement did not affect the District's operating funds.

Cause: The District's Health Reimbursement Account Plan Trust was not properly presented as fiduciary activity, in accordance with GAAP.

Recommendation: We recommend the District ensure that all fiduciary activity is properly presented in accordance with GAAP.

Management Response: Management agrees with the recommendation, and has already evaluated the upcoming changes that will be required to the District's fiduciary activities with the implementation of *Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities*. So, the District is confident all fiduciary activity will be properly presented going-forward.

Section III – Federal Award Findings and Questioned Costs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

Section IV – Minnesota Legal Compliance Findings

None noted

	AUDIT		UFARS		DIFFERENCE
	\$		\$		\$
01 GENERAL FUND					
Total Revenue	232,093,195		232,093,195		3
Total Expenditures	230,054,341		230,054,341		
Nonspendable Fund Balance					
490 Nonspendable Fund Balance	1,193,602		1,193,601		1
Restricted:					
403 Staff Development	406,591		406,591		
404 Health Insurance					
405 Student Services					
407 Capital Project Levy					
408 Cooperative Programs					
413 Projects Funded by COP					
416 Operating Debt					
417 Tacoma Building Maintenance	3,000,862		3,000,862		
424 Operating Capital					
426 825 Tractor					
428 Disabled Accessibility					
429 Public Safety					
434 Area Learning Center	452,215		452,215		
435 Contracted Alternative Programs					
436 State-Approved Alternative Programs					
440 "Wild and Tame"					
441 Basic Skills Programs					
442 Career and Technical Programs					
446 Achievement and Integration					
447 Career and Technical Programs					
451 2025 Book Code Levy	295,856		295,856		
452 OPEB Liability Not Held in Trust					
453 Unfunded Severance & Retirement Levy	38,135		38,135		
458 Basic Skills Extended Time	2,877,770		2,877,770		
462 Long Term Facilities Maintenance	1,758,263		1,758,263		
464 Restricted Fund Balance					
Committed:					
418 Committed for Separation					
461 Committed Fund Balance	4,520,714		4,520,714		
462 Assigned Fund Balance					
463 Unassigned Fund Balance	21,109,864		21,109,865		(1)
02 FOOD SERVICE					
Total Revenue	9,047,274		9,047,275		(1)
Total Expenditures	8,901,008		8,901,008		
Nonspendable:					
465 Nonspendable Fund Balance	102,896		102,896		
452 OPEB Liability Not Held in Trust					
464 Restricted Fund Balance	3,244,700		3,244,700		
Unassigned:					
463 Unassigned Fund Balance					
04 COMMUNITY SERVICE					
Total Revenue	13,466,676		13,466,676		
Total Expenditures	12,790,817		12,790,816		1
Nonspendable:					
426 825 Tractor	15,439		15,438		1
431 Community Education	513,915		513,916		(1)
442 E-CJ-E	109,236		109,236		
444 School Readiness	141,277		141,277		
447 Adult Basic Education	194,302		194,302		
452 OPEB Liability Not Held in Trust					
464 Restricted Fund Balance					
463 Unassigned Fund Balance					

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2019**



CliftonLarsonAllen LLP
CLAccount.com

	AUDIT	UFARS	DIFFERENCE
06 BUILDING CONSTRUCTION			
Total Revenue	\$ 582,205	\$ 582,204	\$ 1
Total Expenditures	13,778,581	13,778,580	1
Nonassignable	-	-	-
400 Nonresponsible Fund Balance	-	-	-
Restricted:			
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	1,029,787	1,029,787	-
407 Long Term Facilities Maintenance	19,238,160	19,238,160	-
484 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	(148,200)	(148,200)	-
07 DEBT SERVICE			
Total Revenue	\$ 9,754,114	\$ 9,754,114	\$ -
Total Expenditures	9,910,289	9,910,288	1
Nonresponsible	-	-	-
Nonresponsible Fund Balance	-	-	-
Restricted:			
425 Bond Refunding	-	-	-
451 OZAS and OZSO Payments	-	-	-
484 Restricted Fund Balance	2,844,184	2,844,184	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
08 TRUST			
Total Revenue	\$ 9,072,010	\$ 9,072,010	\$ -
Total Expenditures	2,544,659	2,544,659	-
Net Position:			
422 Net Position	8,027,206	8,027,205	1
20 INTERNAL SERVICE			
Total Revenue	\$ 34,685,977	\$ 34,685,978	\$ (1)
Total Expenditures	40,347,727	40,347,727	-
Net Position:			
422 Net Position	10,013,003	10,003,319	(969,684)
20 OPER REVOCABLE TRUST			
Total Revenue	-	-	-
Total Expenditures	-	-	-
Net Position:			
422 Net Position	-	-	-
45 OPER IRREVOCABLE TRUST			
Total Revenue	\$ 2,880,241	\$ 2,880,242	\$ (1)
Total Expenditures	1,239,223	1,239,223	-
Net Position:			
422 Net Position	12,202,205	12,202,205	-
47 OPER DEBT SERVICE			
Total Revenue	-	-	-
Total Expenditures	-	-	-
Net Position:			
400 Nonresponsible Fund Balance	-	-	-
Restricted:			
425 Bond Refunding	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

INDEPENDENT AUDITORS' REPORT

Board of Education, Advisors, and Students
Independent School District No. 535
Rochester, Minnesota

Report on the Financial Statement

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 535 as of and for the year ended June 30, 2019, and the related note to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditors' Responsibility

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

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

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



Board of Education
Independent School District No. 535

**ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
STUDENT ACTIVITY ACCOUNTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2019**

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

As described in the note to the financial statement, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statement is prepared by the Independent School District No. 535 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 535 as of June 30, 2019, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

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

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, the financial statement referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District No. 535 as of June 30, 2019, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statement.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Rochester, Minnesota
November 4, 2019

Funds	Balance 6/30/18	Receipts	Disbursements & Transfers	Balance 6/30/19
Washington	\$ 3,637	\$ 7,142	\$ 7,324	\$ 3,455
Friedell	5,945	5,764	9,438	2,271
John Adams	30,073	5,167	1,416	33,824
Kellogg	6,801	6,582	4,738	8,645
Willow Creek	28,274	8,028	4,560	31,742
Century	248,725	265,772	440,638	73,859
John Marshall	154,357	227,165	252,272	129,250
Mayo	122,076	275,865	222,718	175,223
Rochester ALC	2,119	761	1,399	1,481
Phoenix Academy	2,469	6,625	2,584	6,510
Total	\$ 604,476	\$ 808,871	\$ 947,087	\$ 466,260

See accompanying Notes to Student Activity Fund Financial Statements.

ROCHESTER PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 535
STUDENT ACTIVITY FUNDS
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2019

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounts of the Student Activity Fund are maintained, and the accompanying financial statements have been prepared, on the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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



CliftonLarsonAllen LLP
CLAAconnect.com

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

Board of Education
Independent School District No. 535
Rochester, Minnesota

Report on Compliance

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 535 as of and for the year ended June 30, 2019, and the related note to the financial statement, and have issued our report thereon dated November 4, 2019. We expressed an adverse opinion on accounting principles generally accepted in the United States of America because the financial statement is prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of education and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Rochester, Minnesota
November 4, 2019

FORM OF LEGAL OPINION

(See following pages)

FORM OF LEGAL OPINION



Independent School District No. 535
Rochester, Minnesota

[Original Purchaser]

Re: \$172,610,000 General Obligation School Building Bonds, Series 2020A
Independent School District No. 535 (Rochester Public Schools), Minnesota
Olmsted and Wabasha Counties, Minnesota

Ladies and Gentlemen:

As Bond Counsel in connection with the authorization, issuance and sale by Independent School District No. 535 (Rochester Public Schools), Minnesota (the District), of the obligations described above, dated, as originally issued, as of January 30, 2020 (the Bonds), we have examined certified copies of certain proceedings taken, and certain affidavits and certificates furnished, by the District in the authorization, sale and issuance of the Bonds, including the form of the Bonds. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1. The Bonds are valid and binding general obligations of the District, enforceable in accordance with their terms.
2. The principal of and interest on the Bonds are payable from ad valorem taxes heretofore duly levied on all taxable property in the District, but if necessary for payment thereof, additional ad valorem taxes are required by law to be levied on all such property, which taxes are not subject to any limitation as to rate or amount.
3. The resolution authorizing the issuance of the Bonds obligates the District to be bound by the provisions of Minnesota Statutes, Section 126C.55. We express no opinion as to the enforceability of the provisions of such law against the State of Minnesota in the absence of legally appropriated and available funds to pay the obligations of the State thereunder.

Independent School District No. 535
[Purchaser]
Page 2

4. Interest on the Bonds (a) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the Code) and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed by Section 55 of the Code.

5. Interest on the Bonds (a) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes and (b) is not an item of tax preference for purposes of the Minnesota alternative minimum tax imposed on individuals, estates, and trusts.

The opinions expressed in paragraphs 1, 2, and 3 above are subject, as to enforceability, to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the application of equitable principles, whether considered at law or in equity.

The opinions expressed in paragraphs 4 and 5 above are subject to the compliance by the District with certain requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. Noncompliance with these requirements could result in the inclusion of interest on the Bonds in gross income for federal income tax purposes and taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, retroactive to the date of issuance of the Bonds.

Except as stated herein, we express no opinion regarding federal, state, or other tax consequences to the owner of the Bonds. We note, however, that notwithstanding the opinion expressed in paragraph 5 above, interest on the Bonds is included in net income of corporations and financial institutions for purposes of the Minnesota franchise tax.

We have not been asked, and have not undertaken, to review the accuracy, completeness or sufficiency of any offering materials relating to the Bonds, and, accordingly, we express no opinion with respect thereto.

Dated this 30th day of January, 2020.

Very truly yours,

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

**FORM OF CONTINUING DISCLOSURE COVENANTS
(EXCERPTS FROM SALE RESOLUTION)**

(See following pages)

FORM OF CONTINUING DISCLOSURE

Continuing Disclosure. (a) Purpose and Beneficiaries. To provide for the public availability of certain information relating to the Bonds and the security therefor and to permit the Purchaser and other participating underwriters in the primary offering of the Bonds to comply with amendments to Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), relating to continuing disclosure (as in effect and interpreted from time to time, the Rule), which will enhance the marketability of the Bonds, the District hereby makes the following covenants and agreements for the benefit of the Owners (as hereinafter defined) from time to time of the outstanding Bonds. The District is the only obligated person in respect of the Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. If the District fails to comply with any provisions of this section, any person aggrieved thereby, including the Owners of any outstanding Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this section, including an action for a writ of mandamus or specific performance. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder to the extent permitted by law. Notwithstanding anything to the contrary contained herein, in no event shall a default under this section constitute a default under the Bonds or under any other provision of this resolution. As used in this section, Owner or Bondowner means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, Beneficial Owner means, in respect of a Bond, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Bond for federal income tax purposes.

(b) Information To Be Disclosed. The District will provide, in the manner set forth in subsection (c) hereof, either directly or indirectly through an agent designated by the District, the following information at the following times:

- (1) on or before twelve (12) months after the end of each fiscal year of the District, commencing with the fiscal year ending June 30, 2020, the following financial information and operating data in respect of the District (the Disclosure Information):
 - (A) the audited financial statements of the District for such fiscal year, prepared in accordance with generally accepted accounting principles in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the District, noting the discrepancies therefrom and the effect thereof, and

certified as to accuracy and completeness in all material respects by the fiscal officer of the District; and

- (B) to the extent not included in the financial statements referred to in paragraph (A) hereof, the information for such fiscal year or for the period most recently available of the type contained in the Official Statement under the headings: Current Property Valuations; Direct Debt; Tax Levies and Collections; Student Body; and Employment/ Unemployment Data, which information may be unaudited.

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the District shall provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the District shall provide the audited financial statements. Any or all of the Disclosure Information may be incorporated by reference, if it is updated as required hereby, from other documents, including official statements, which have been submitted to the Municipal Securities Rulemaking Board (the MSRB) through its Electronic Municipal Market Access System (EMMA) or the SEC. The District shall clearly identify in the Disclosure Information each document so incorporated by reference. If any part of the Disclosure Information can no longer be generated because the operations of the District have materially changed or been discontinued, such Disclosure Information need no longer be provided if the District includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other District operations in respect of which data is not included in the Disclosure Information and the District determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations. If the Disclosure Information is changed or this section is amended as permitted by this paragraph (b)(1) or subsection (d), then the District shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

- (2) In a timely manner, not in excess of 10 business days, to the MSRB through EMMA, notice of the occurrence of any of the following events (each a “Material Fact,” as hereinafter defined):
 - (A) principal and interest payment delinquencies;
 - (B) non-payment related defaults, if material;
 - (C) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (D) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (E) substitution of credit or liquidity providers, or their failure to perform;
 - (F) 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 Bonds or other material events affecting the tax status of the Bonds;

- (G) modifications to rights of Bond holders, if material;
- (H) Bond calls, if material and tender offers;
- (I) defeasances;
- (J) release, substitution, or sale of property securing repayment of the Bonds if material;
- (K) rating changes;
- (L) bankruptcy, insolvency, receivership, or similar event of the obligated person;
- (M) 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 actions, other than pursuant to its terms, if material;
- (N) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (O) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; “financial obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule; and
- (P) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

As used herein, for those events that must be reported if material, a “Material Fact” is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a Material Fact is also a fact that would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

For the purposes of the event identified in (L) hereinabove, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order

confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

- (3) In a timely manner, to the MSRB through EMMA, notice of the occurrence of any of the following events or conditions:
 - (A) the failure of the District to provide the Disclosure Information required under paragraph (b)(1) at the time specified thereunder;
 - (B) the amendment or supplementing of this section pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the District under subsection (d)(2);
 - (C) the termination of the obligations of the District under this section pursuant to subsection (d);
 - (D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and
 - (E) any change in the fiscal year of the District.

(c) Manner of Disclosure.

- (1) The District agrees to make available to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, the information described in subsection (b).
- (2) All documents provided to the MSRB pursuant to this subsection (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(d) Term; Amendments; Interpretation.

- (1) The covenants of the District in this section shall remain in effect so long as any Bonds are outstanding. Notwithstanding the preceding sentence, however, the obligations of the District under this section shall terminate and be without further effect as of any date on which the District delivers to the Registrar an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the District to comply with the requirements of this section will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.
- (2) This section (and the form and requirements of the Disclosure Information) may be amended or supplemented by the District from time to time, without notice to (except as provided in paragraph (c)(2) hereof) or the consent of the Owners of any Bonds, by a resolution of this Board filed in the office of the recording officer of

the District accompanied by an opinion of Bond Counsel, who may rely on certificates of the District and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the District or the type of operations conducted by the District, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this section as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule.

If the Disclosure Information is so amended, the District agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

- (3) This section is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

TERMS OF PROPOSAL

**\$172,610,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2020A
INDEPENDENT SCHOOL DISTRICT NO. 535 (ROCHESTER PUBLIC SCHOOLS), MINNESOTA**

Proposals for the purchase of \$172,610,000* General Obligation School Building Bonds, Series 2020A (the "Bonds") of Independent School District No. 535 (Rochester Public Schools), Minnesota (the "District") will be received at the offices of Ehlers and 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 January 7, 2020, at which time they will be opened, read and tabulated. The proposals will be presented to the Board of Education for consideration for award by resolution at a meeting to be held at 5:30 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, and a special election held November 5, 2019 by the District for the purpose of financing the acquisition and betterment of school sites and facilities in the District. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated January 30, 2020, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2021	\$3,435,000	2028	\$8,405,000	2035	\$10,470,000
2022	4,560,000	2029	8,640,000	2036	10,805,000
2023	5,140,000	2030	8,895,000	2037	11,165,000
2024	6,270,000	2031	9,215,000	2038	11,525,000
2025	6,875,000	2032	9,585,000	2039	11,910,000
2026	6,330,000	2033	9,860,000	2040	12,330,000
2027	7,040,000	2034	10,155,000		

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, 2020, 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 2021 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, 2029 shall be subject to optional redemption prior to maturity on February 1, 2028 or 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 January 30, 2020, 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 in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP ("Bond Counsel"), Minneapolis, Minnesota, bond counsel to the District.

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$170,883,900 plus accrued interest on the principal sum of \$172,610,000 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) 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 \$3,452,200 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. 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.

ESTABLISHMENT OF ISSUE PRICE AT TIME OF AWARD

In order to establish the issue price of the Bonds for federal income tax purposes, the District requires bidders to agree to the following, and by submitting a proposal, each bidder agrees to the following.

If a proposal is submitted by a potential underwriter, the bidder confirms that (i) the underwriters have offered or reasonably expect to offer the Bonds to the public on or before the date of the award at the offering price (the "initial offering price") for each maturity as set forth in the proposal and (ii) the bidder, if it is the winning bidder, shall require any agreement among underwriters, selling group agreement, retail distribution agreement or other agreement relating to the initial sale of the Bonds to the public to which it is a party to include provisions requiring compliance by all parties to such agreements with the provisions contained herein. For purposes hereof, Bonds with a separate CUSIP number constitute a separate "maturity", and the public does not include underwriters (including members of a selling group or retail distribution group) or persons related to underwriters.

If, however, a proposal is submitted for the bidder's own account in a capacity other than as an underwriter of the Bonds, and the bidder has no current intention to sell, reoffer, or otherwise dispose of the Bonds, the bidder shall notify the District to that effect at the time it submits its proposal and shall provide a certificate to that effect in place of the certificate otherwise required below.

If the winning bidder intends to act as an underwriter, the District shall advise the winning bidder at or prior to the time of award whether (i) the competitive sale rule or (ii) the "hold-the-offering price" rule applies.

If the District advises the Purchaser that the requirements for a competitive sale have been satisfied and that the competitive sale rule applies, the Purchaser will be required to deliver to the District at or prior to closing a certification, in a form reasonably acceptable to bond counsel, as to the reasonably expected initial offering price as of the award date.

If the District advises the Purchaser that the requirements for a competitive sale have not been satisfied and that the hold-the-offering price rule applies, the Purchaser shall (1) upon the request of the District confirm that the underwriters did not offer or sell any maturity of the Bonds to any person at a price higher than the initial offering price of that maturity during the period starting on the award date and ending on the earlier of (a) the close of the fifth business day after the sale date or (b) the date on which the underwriters have sold at least 10% of that maturity to the public at or below the initial offering price; and (2) at or prior to closing, deliver to the District a certification as to such matters, in a form reasonably acceptable to bond counsel, together with a copy of the pricing wire.

Any action taken or documentation to be received by the District pursuant hereto may be taken or received on behalf of the District by Ehlers & Associates, Inc.

Bidders should prepare their proposals on the assumption that the Bonds will be subject to the "hold-the-offering-price" rule. Any proposal submitted pursuant to the Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, and Bonds submitted will not be subject to cancellation or withdrawal.

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. 535
(Rochester Public Schools), Minnesota

PROPOSAL FORM

**The Board of Education
Independent School District No. 535 (Rochester Public Schools), Minnesota**

January 7, 2020

RE: \$172,610,000* General Obligation School Building Bonds, Series 2020A (the "Bonds")
DATED: January 30, 2020

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 \$170,883,900) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follow s:

_____	% 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	_____	% due	2039
_____	% due	2026	_____	% due	2033	_____	% due	2040
_____	% due	2027	_____	% due	2034			

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

The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2021 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% .

A good faith deposit ("Deposit") in the amount of \$3,452,200 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. 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. We agree to the conditions and duties of Ehlers and 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 January 30, 2020.

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 the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, 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 January 30, 2020 of the above proposal is \$_____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the Board of Education of Independent School District No. 535 (Rochester Public Schools), Minnesota, on January 7, 2020.

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