

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 2, 2020

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: Moody's Investors Service, Inc.

INDEPENDENT SCHOOL DISTRICT NO. 2805 (ZUMBROTA-MAZEPPA PUBLIC SCHOOLS), MINNESOTA (Wabasha, Goodhue and Olmsted Counties)

(Minnesota School District Credit Enhancement Program)

\$30,270,000* GENERAL OBLIGATION SCHOOL BUILDING AND FACILITIES MAINTENANCE BONDS, SERIES 2020A

PROPOSAL OPENING: January 13, 2020, 10:30 A.M., C.T. **CONSIDERATION:** January 13, 2020, 7:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$30,270,000* General Obligation School Building and Facilities Maintenance Bonds, Series 2020A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 123B.595 (long-term facilities maintenance revenue), and a special election held November 5, 2019, by Independent School District No. 2805 (Zumbrota-Mazeppa Public Schools), Minnesota (the "District") to provide funds for the acquisition and betterment of school sites and facilities, including but not limited to, security and heating/ventilation improvements, classroom additions and renovations, cafeteria, and technical education learning space and auditorium expansions; and to provide funds for various deferred maintenance projects included in the ten-year facility plan of the District and approved by the Commissioner of Education. 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: February 6, 2020

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2021	\$415,000	2030	\$1,465,000	2039	\$1,330,000
2022	510,000	2031	1,495,000	2040	1,465,000
2023	570,000	2032	1,550,000	2041	1,470,000
2024	685,000	2033	1,570,000	2042	1,460,000
2025	770,000	2034	1,580,000	2043	1,465,000
2026	810,000	2035	1,590,000	2044	1,465,000
2027	850,000	2036	1,345,000	2045	1,470,000
2028	885,000	2037	1,340,000		
2029	1,380,000	2038	1,335,000		

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: \$29,967,300.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$605,400 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 15c2-2(b)(1), but is subject to revision, amendment and completion in a Final Official Statement.



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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	4		
STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS	4		
CONTINUING DISCLOSURE	5		
LEGAL OPINION	6		
TAX CONSIDERATIONS	6		
MUNICIPAL ADVISOR	9		
MUNICIPAL ADVISOR AFFILIATED COMPANIES ...	9		
INDEPENDENT AUDITORS	9		
RISK FACTORS	10		
VALUATIONS	12		
OVERVIEW	12		
CURRENT PROPERTY VALUATIONS	13		
2018/19 NET TAX CAPACITY BY CLASSIFICATION .	14		
TREND OF VALUATIONS	14		
LARGER TAXPAYERS	15		
DEBT	16		
DIRECT DEBT	16		
STATE AID FOR DEBT SERVICE	17		
SCHEDULE OF BONDED INDEBTEDNESS	18		
BONDED DEBT LIMIT	20		
DEBT PAYMENT HISTORY	20		
DEBT RATIOS	21		
FUTURE FINANCING	21		
LEVY LIMITS	21		
TAX RATES, LEVIES AND COLLECTIONS	22		
TAX LEVIES AND COLLECTIONS	22		
TAX CAPACITY RATES	23		
THE ISSUER	24		
EMPLOYEES	24		
PENSIONS; UNIONS	24		
POST EMPLOYMENT BENEFITS	24		
STUDENT BODY	25		
SCHOOL BUILDINGS	25		
FUNDS ON HAND	25		
LITIGATION	26		
MUNICIPAL BANKRUPTCY	26		
SUMMARY GENERAL FUND INFORMATION	27		
GENERAL INFORMATION	28		
LOCATION	28		
LARGER EMPLOYERS	28		
U.S. CENSUS DATA	29		
EMPLOYMENT/UNEMPLOYMENT DATA	29		

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS SCHOOL BOARD

		<u>Term Expires</u>
Jeanette Roth	Chairperson	January 2023
Jason Lohmann	Vice Chairperson	January 2021
Angela Bredehoft	Clerk	January 2021
James Wendt	Treasurer	January 2023
Stephanie Miller	Member	January 2021
Amanda Peters	Member	January 2023

ADMINISTRATION

Mike Harvey, Superintendent of Schools
Diane Matthees, Coordinator of Fiscal Services

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. 2805 (Zumbrota-Mazeppa Public Schools), Minnesota (the "District") and the issuance of its \$30,270,000* General Obligation School Building and Facilities Maintenance 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 13, 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 February 6, 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 Section 123B.595 (long-term facilities maintenance revenue). A portion of the Bonds, approximately \$28,685,000, will be used to finance the acquisition and betterment of school sites and facilities, including but not limited to, security and heating/ventilation improvements, classroom additions and renovations, cafeteria, and technical education learning space and auditorium expansions, as approved by the electors at a special election held on November 5, 2019, by a vote of 1,203 - 1,065 (the "School Building Portion"). A portion of the Bonds, approximately \$3,045,000, will be used to finance various deferred maintenance projects (collectively, the Facilities Maintenance Projects), as described in the District's revised ten-year facility plan hereby approved by this Board (the "Facility Maintenance Portion"). Pursuant to the provisions of Minnesota Statutes, Section 123B.595, subdivision 5 it is hereby determined that the total amount of District indebtedness as of December 1, 2019 is \$8,745,000.

ESTIMATED SOURCES AND USES*

Sources	School Building Portion	Facilities Maintenance Portion	Total Bond Issue
Par Amount of Bonds	\$27,495,000	\$2,775,000	\$30,270,000
Reoffering Premium	<u>1,220,420</u>	<u>264,708</u>	<u>1,485,127</u>
Total Sources	\$28,715,420	\$3,039,708	\$31,755,127
Uses			
Total Underwriter's Discount (1.000%)	\$274,950	\$27,750	\$302,700
Costs of Issuance	115,001	11,607	126,608
Deposit to Project Construction Fund	28,325,468	3,000,000	31,325,468
Rounding Amount	<u>-</u>	<u>351</u>	<u>351</u>
Total Uses	\$28,715,420	\$3,039,708	\$31,755,127

*Preliminary, subject to change.

Breakdown of Principal Payments*:

Payment Date	School Building Portion	Facilities Maintenance Portion	Total Bond Issue
2/01/2021	\$285,000	\$130,000	\$415,000
2/01/2022	375,000	135,000	510,000
2/01/2023	425,000	145,000	570,000
2/01/2024	535,000	150,000	685,000
2/01/2025	610,000	160,000	770,000
2/01/2026	645,000	165,000	810,000
2/01/2027	675,000	175,000	850,000
2/01/2028	700,000	185,000	885,000
2/01/2029	1,185,000	195,000	1,380,000
2/01/2030	1,260,000	205,000	1,465,000
2/01/2031	1,285,000	210,000	1,495,000
2/01/2032	1,330,000	220,000	1,550,000
2/01/2033	1,345,000	225,000	1,570,000
2/01/2034	1,345,000	235,000	1,580,000
2/01/2035	1,350,000	240,000	1,590,000
2/01/2036	1,345,000	-	1,345,000
2/01/2037	1,340,000	-	1,340,000
2/01/2038	1,335,000	-	1,335,000
2/01/2039	1,330,000	-	1,330,000
2/01/2040	1,465,000	-	1,465,000
2/01/2041	1,470,000	-	1,470,000
2/01/2042	1,460,000	-	1,460,000
2/01/2043	1,465,000	-	1,465,000
2/01/2044	1,465,000	-	1,465,000
2/01/2045	<u>1,470,000</u>	<u>-</u>	<u>1,470,000</u>
Total	\$27,495,000	\$2,775,000	\$30,270,000

*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 Moody's Investors Service ("Moody's"). Moody's has a policy which assigns a minimum rating of "Aa2" to issuers participating in the MNCEP. The "Aa2" rating is based on the State of Minnesota's current "Aa1" rating from Moody's. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS" for further details.

The District currently has an "A1" underlying rating from Moody's and will be requesting an underlying rating on this issue. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgement of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on December 12, 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 an Annual Report including the District's audited financial statements and operating data would be filed "as soon as available." Although the District did not always comply with this requirement, the Annual Reports were timely filed within the required twelve (12) month 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 Preliminary Official Statement, and its assistance in preparing this Preliminary 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 \$1,122,177,292¹

2018/19 Assessor's Estimated Market Value

	Wabasha County	Goodhue County	Olmsted County	Total
Real Estate	\$318,018,100	\$742,289,400	\$ 1,276,900	\$ 1,060,307,500
Personal Property	<u>952,800</u>	<u>20,597,400</u>	<u>0</u>	<u>21,550,200</u>
Total Valuation	<u><u>\$318,970,900</u></u>	<u><u>\$762,886,800</u></u>	<u><u>\$ 1,276,900</u></u>	<u><u>\$ 1,081,857,700</u></u>

2018/19 Net Tax Capacity

	Wabasha County	Goodhue County	Olmsted County	Total
Real Estate	\$ 2,607,092	\$ 6,602,102	\$ 11,379	\$ 9,220,573
Personal Property	<u>17,861</u>	<u>409,996</u>	<u>0</u>	<u>427,857</u>
Net Tax Capacity	\$ 2,624,953	\$ 7,012,098	\$ 11,379	\$ 9,648,430
Less: Captured Tax Increment Tax Capacity ²	(3,447)	(14,975)	0	(18,422)
Power Line Adjustment ³	<u>0</u>	<u>(26,620)</u>	<u>0</u>	<u>(26,620)</u>
Taxable Net Tax Capacity	<u><u>\$ 2,621,506</u></u>	<u><u>\$ 6,970,503</u></u>	<u><u>\$ 11,379</u></u>	<u><u>\$ 9,603,388</u></u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 2805 (Zumbrota-Mazeppa Public Schools) is about 96.77% of the actual selling prices of property most recently sold in the District. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the District of \$1,122,177,292.

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	\$ 3,918,459	40.61%
Agricultural	3,651,465	37.85%
Commercial/industrial	957,158	9.92%
Public utility	47,135	0.49%
Non-homestead residential	562,741	5.83%
Commercial & residential seasonal/rec.	83,615	0.87%
Personal property	427,857	4.43%
Total	<u>\$ 9,648,430</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	\$ 959,951,200	\$ 908,786,600	\$ 8,201,477	\$ 8,123,746	+1.77%
2015/16	950,390,700	899,866,800	8,094,173	8,016,648	-1.00%
2016/17	975,894,100	926,604,900	8,492,926	5,448,553	+2.68%
2017/18	1,009,396,500	958,598,700	8,886,816	8,832,526	+3.43%
2018/19	1,083,134,600	1,037,421,700	9,648,430	9,603,388	+7.31%

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
Xcel Energy	Utility	\$255,339	2.65%
Inland American Zumbrota Atlas	Industrial	154,826	1.60%
Minnesota Municipal Power Agency	Utility	95,190	0.99%
Midwest Fabrication R E, LLC	Industrial	73,924	0.77%
Individual	Agricultural	48,930	0.51%
Individual	Agricultural	43,891	0.45%
Individual	Agricultural	40,540	0.42%
Dairyland Power Cooperative	Utility	38,476	0.40%
Minnesota Energy Resources Corporation	Utility	38,052	0.39%
Individual	Agricultural	35,805	0.37%
Total		<u><u>\$824,973</u></u>	<u><u>8.55%</u></u>

District's Total 2018/19 Net Tax Capacity \$9,648,430

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

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedule following)

Total G.O. debt secured by taxes and state aids ² (includes the Bonds)*	<u>\$ 48,130,000</u>
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Lease Purchase Obligations (see schedule following)

Total lease purchase obligations paid by annual appropriations ³	<u>\$ 987,771</u>
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*Preliminary, subject to change.

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

² Based upon the long term facilities maintenance revenue formula and the 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.

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.

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 16% of total annual debt service levies, based on the District's 2018/19 qualifying agricultural land valuation.

Independent School District No. 2805 (Zumbrota-Mazeppa Public Schools), Minnesota
 Schedule of Bonded Indebtedness
 General Obligation Debt Secured by Taxes
 (As of 02/06/2020)

Fiscal Year Ending	Alternative Facilities Refunding Bonds Series 2013A		Capital Facilities Bonds Series 2016A		School Building Bonds Series 2019A		School Building and Facilities Maintenance Bonds Series 2020A		Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Principal	Interest	Principal	Interest	Principal	Interest				
2021	810,000	02/01	75,000	23,398	0	253,569	415,000	1,124,366	2,854,283	46,830,000	2.70%	2021
2022	825,000	02/01	75,000	22,160	0	233,465	510,000	1,119,453	2,921,828	45,420,000	5.63%	2022
2023	840,000	02/01	80,000	20,735	0	233,465	570,000	1,093,953	2,958,403	43,930,000	8.73%	2023
2024	860,000	02/01	80,000	19,215	0	233,465	685,000	1,065,453	3,046,583	42,305,000	12.10%	2024
2025	875,000	02/01	80,000	17,495	0	233,465	770,000	1,031,203	3,093,413	40,580,000	15.69%	2025
2026	890,000	02/01	85,000	15,775	0	233,465	810,000	1,310,693	3,095,693	38,795,000	19.40%	2026
2027	915,000	02/01	85,000	13,438	0	233,465	850,000	1,245,605	3,095,605	36,945,000	23.24%	2027
2028	945,000	02/01	90,000	11,100	0	233,465	885,000	1,177,893	3,097,893	35,025,000	27.23%	2028
2029	825,000	02/01	90,000	8,400	240,000	233,465	1,380,000	865,453	2,817,318	33,315,000	30.78%	2029
2030	840,000	02/01	95,000	5,700	255,000	228,065	1,465,000	796,453	2,845,218	31,500,000	34.55%	2030
2031	850,000	02/01	95,000	2,850	285,000	222,328	1,495,000	737,853	2,838,030	29,625,000	38.45%	2031
2032	825,000	02/01	90,000	11,100	300,000	215,915	1,550,000	678,053	2,743,968	27,775,000	42.29%	2032
2033	825,000	02/01	90,000	8,400	330,000	209,165	1,570,000	631,553	2,740,718	25,875,000	46.24%	2033
2034	840,000	02/01	380,000	202,565	380,000	202,565	1,580,000	584,453	2,747,018	23,915,000	50.31%	2034
2035	860,000	02/01	425,000	194,775	425,000	194,775	1,590,000	533,103	2,742,878	21,900,000	54.50%	2035
2036	875,000	02/01	480,000	185,850	480,000	185,850	1,345,000	481,428	2,492,278	20,075,000	58.29%	2036
2037	825,000	02/01	540,000	437,715	540,000	175,530	1,340,000	437,715	2,493,245	18,195,000	62.20%	2037
2038	840,000	02/01	600,000	163,650	600,000	163,650	1,335,000	394,165	2,492,815	16,250,000	66.22%	2038
2039	875,000	02/01	665,000	150,150	665,000	150,150	1,330,000	350,110	2,495,260	14,265,000	70.36%	2039
2040	890,000	02/01	730,000	134,855	730,000	134,855	1,465,000	304,890	2,634,745	12,070,000	74.92%	2040
2041	880,000	02/01	880,000	117,700	880,000	117,700	1,470,000	255,080	2,642,780	9,800,000	79.64%	2041
2042	945,000	02/01	945,000	98,500	945,000	98,500	1,460,000	205,100	2,643,600	7,460,000	84.50%	2042
2043	1,020,000	02/01	1,020,000	76,500	1,020,000	76,500	1,465,000	154,000	2,640,500	5,050,000	89.51%	2043
2044	6,960,000	02/01	930,000	160,265	9,970,000	4,577,086	1,470,000	51,450	2,640,600	2,565,000	94.67%	2044
2045									2,643,825	0	100.00%	2045
			6,960,000	738,525	9,970,000	4,577,086	30,270,000	15,852,614	21,328,490	48,130,000		
									69,458,490			

* Preliminary, subject to change.

Independent School District No. 2805 (Zumbrota-Mazeppa Public Schools), Minnesota
Schedule of Bonded Indebtedness
Non-General Obligation Debt Secured by Annual Appropriation
(As of 02/06/2020)

Fiscal Year Ending	Lease-Purchase Agreement Series 2007		Lease-Purchase Agreement Series 2008		Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Dated Amount	Maturity				
2020	10/30/2007 \$1,549,370	10/30	02/05/2008 \$1,331,526	02/05 & 07/05 & 08/05	87,189	913,658	7.50%	2020
2021					352,014	596,108	39.65%	2021
2022					309,644	309,188	68.70%	2022
2023					319,258	0	100.00%	2023
					1,068,104			

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	\$1,122,177,292
Multiply by 15%	<u>0.15</u>
Statutory Debt Limit	\$ 168,326,594
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(48,130,000)
Less: Long-Term Debt Outstanding Being Paid Solely from Annual Appropriations	<u>(987,771)</u>
Unused Debt Limit*	<u><u>\$ 119,208,823</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
Wabasha County	\$ 28,139,034	9.3163%	\$ 9,930,000	\$ 925,109
Goodhue County	78,671,591	8.8603%	16,500,000	1,461,950
Olmsted County	198,905,629	0.0057%	78,655,000	4,483
City of Mazeppa	486,787	100.0000%	530,000	530,000
City of Zumbrota	3,186,466	100.0000%	455,000	455,000
District's Share of Total Overlapping Debt				<u><u>\$3,376,541</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 (\$1,122,177,292)	Debt/ Current Population Estimate (7,083)
Direct G.O. Debt Secured By Taxes and State Aids ¹ (includes the Bonds)*	\$48,130,000	4.29%	\$6,795.14
Less: State Agricultural Credit	<u>(7,700,800)</u>		
Tax Supported General Obligation Debt*	\$40,429,200	3.60%	\$5,707.92
District's Share of Total Overlapping Debt	<u>\$ 3,376,541</u>	<u>0.30%</u>	<u>\$476.71</u>
Total*	<u><u>\$43,805,741</u></u>	<u><u>3.90%</u></u>	<u><u>\$6,184.63</u></u>

*Preliminary, subject to change.

FUTURE FINANCING

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

LEVY LIMITS

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

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

¹ Based on current State law and statistics, the State of Minnesota is estimated to pay approximately 16% of the principal and interest of the District's general obligation bonds. Assuming this percentage continues for the life of the issue, the State's proportionate share of principal is \$7,700,800.

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	\$3,166,660	\$3,136,319	\$3,164,704	99.94%
2015/16	3,163,729	3,142,590	3,161,712	99.94%
2016/17	3,135,374	3,116,196	3,131,051	99.86%
2017/18	3,715,038	3,684,787	3,684,787	99.19%
2018/19	3,790,054	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 15, 2019 for Wabasha County, through March 22, 2019 for Goodhue County and through March 6, 2019 for Olmsted 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. 2805 (Zumbrota-Mazeppa Public Schools)	22.805%	23.102%	22.536%	21.383%	20.136%
Wabasha County	52.558%	53.733%	53.911%	53.850%	53.669%
Olmsted County	57.532%	57.796%	54.346%	54.837%	53.562%
Goodhue County	41.466%	41.066%	41.636%	42.283%	44.979%
City of Mazeppa	82.142%	85.040%	80.683%	90.751%	76.036%
City of Zumbrota	61.570%	64.962%	63.944%	60.388%	61.189%
Town of Oronoco ²	14.175%	16.780%	15.615%	16.096%	17.056%
Bear Valley Watershed	0.643%	0.673%	0.681%	0.673%	0.632%
Wabasha County HRA	0.445%	0.420%	0.416%	0.408%	0.391%
Olmsted County HRA	N/A	0.865%	0.793%	0.966%	1.286%
BCWS	0.695%	0.787%	0.744%	0.868%	0.810%
SEMMCHRA	0.669%	0.675%	0.656%	0.855%	0.852%

Referendum Market Value Rates:

I.S.D. No. 2805 (Zumbrota-Mazeppa Public Schools)	0.27529%	0.27486%	0.23887%	0.34870%	0.32369%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Wabasha, Goodhue and Olmsted Counties.

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

² Representative town rate.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 178, including 76 non-licensed employees and 102 licensed employees (102 of whom are teachers). The District provides education for 1,227 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
Hiawatha Valley Teachers United	June 30, 2019
Minnesota Teamsters Public and Law Enforcement Employees Union	June 30, 2020
Zumbrota-Mazeppa Education Support Personnel	June 30, 2020
Education Minnesota - Local #6059 AFL-CIO, NEA, AFT	June 30, 2020

Status of Contracts

The contract which expired on June 30, 2019 is currently in negotiations.

POST EMPLOYMENT BENEFITS

The District has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 75 (GASB 75). The District's most recent actuarial study shows a total OPEB liability of \$465,063 as of July 1, 2018. The District has been funding these obligations on a pay-as-you-go basis.

Source: The District's most recent actuarial study.

STUDENT BODY

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2015/16	101	545	513	1,159
2016/17	85	566	515	1,166
2017/18	103	563	525	1,191
2018/19	78	572	543	1,193
2019/20	97	580	550	1,227

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2020/21	88	573	584	1,245
2021/22	93	566	582	1,241
2022/23	80	552	596	1,228

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Elementary School	1939	1957,1972,1977,1997
Primary School	1952	1963,1968,1986,1993,1997
Middle/High School	1952	1963,1968,1986,1993,1997

FUNDS ON HAND (as of October 31, 2019)

Fund	Total Cash and Investments
General	\$4,509,997
Food Service	180,712
Community Service	332,865
Debt Service	877,559
Total Funds on Hand	<u><u>\$5,901,133</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.

COMBINED STATEMENT	FISCAL YEAR ENDING JUNE 30				2019-20 Adopted Budget ¹
	2016 Audited	2017 Audited	2018 Audited	2019 Audited	
Revenues					
Local property taxes	\$ 2,069,807	\$ 2,161,083	\$ 2,150,109	\$ 2,879,265	\$ 2,897,448
Earnings on investments	3,877	8,089	30,634	74,888	30,000
Other	893,430	670,639	1,123,986	625,227	554,957
Revenues from state sources	9,832,743	10,391,580	10,926,842	11,105,217	11,071,541
Revenues from federal sources	187,801	150,729	163,369	170,372	121,961
Total Revenues	<u>\$12,987,658</u>	<u>\$13,382,120</u>	<u>\$14,394,940</u>	<u>\$14,854,969</u>	<u>\$14,675,907</u>
Expenditures					
Current					
Administration	\$ 700,797	\$ 692,890	\$ 731,409	\$ 784,622	\$ 817,080
District support services	322,753	320,315	351,016	328,472	362,915
Elementary & secondary regular instruction	5,426,225	5,688,907	5,730,441	6,159,064	6,399,689
Vocational education instruction	516,354	465,037	528,781	401,816	527,051
Special education instruction	2,202,179	2,179,855	2,342,100	2,535,132	2,738,108
Instructional support services	599,392	805,928	904,268	819,847	900,788
Pupil support services	932,341	982,829	1,058,242	1,103,272	1,279,269
Sites and buildings	1,004,478	1,062,172	1,005,337	1,172,442	1,414,986
Fiscal and other fixed cost programs	50,722	50,908	54,518	56,079	482,724
Capital Outlay	457,731	380,082	389,892	458,702	0
Debt Service	299,992	302,849	343,227	384,340	0
Total Expenditures	<u>\$12,512,964</u>	<u>\$12,931,772</u>	<u>\$13,439,231</u>	<u>\$14,203,788</u>	<u>\$14,922,610</u>
Excess of revenues over (under) expenditures	\$ 474,694	\$ 450,348	\$ 955,709	\$ 651,181	\$ (246,703)
Other Financing Sources (Uses)					
Proceeds from sale of equipment	\$ 7,511	\$ 2,852	\$ 426	\$ 11,500	
Proceeds from insurance recovery	10,666	107,466	0	35,257	
Total Other Financing Sources (Uses)	<u>\$ 18,177</u>	<u>\$ 110,318</u>	<u>\$ 426</u>	<u>\$ 46,757</u>	
Net Change in Fund Balances	\$ 492,871	\$ 560,666	\$ 956,135	\$ 697,938	
General Fund Balance July 1	1,018,233	1,511,104	2,071,770	3,027,905	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance June 30	\$ 1,511,104	\$ 2,071,770	\$ 3,027,905	\$ 3,725,843	
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	\$ 199,616	\$ 162,486	\$ 130,758	\$ 294,550	
Restricted	479,932	635,953	640,781	757,273	
Committed	0	0	0	1,210,000	
Assigned	138,950	69,038	55,396	87,091	
Unassigned	692,606	1,204,293	2,200,970	1,376,929	
Total	<u>\$ 1,511,104</u>	<u>\$ 2,071,770</u>	<u>\$ 3,027,905</u>	<u>\$ 3,725,843</u>	

¹ The 2019-20 budget was adopted on June 24, 2019.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 6,774, and a current population estimate of 7,083, and comprising an area of 139.12 square miles, is located approximately 55 miles southeast of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS¹

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Dairy Farmers of America	Dairy marketing cooperative	180
I.S.D. No. 2805 (Zumbrota-Mazeppa Public Schools)	Elementary and secondary education	178
Zumbrota Health Services	Health services	100
McDonald's	Restaurant	55
Hub Food Center	Grocery store	50
Commercial Water Distributing, Inc.	Filters - manufacturers	45
Midwest Fabrication and Supply	Specialty metal fabrication	40
Concast, Inc.	Manufacturer of high strength concrete	40
Three Rivers Community Action, Inc.	Health and human services organization	40
Dairy Queen Grill & Chill	Restaurant	35
KWIK Trip	Convenience store	35

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.

U.S. CENSUS DATA

Population Trend: The District

2000 U.S. Census population	6,393
2010 U.S. Census population	6,774
2017 Population Estimate	7,083
Percent of Change 2000 - 2010	+ 5.96%

Income and Age Statistics

	The District	Wabasha County	State of Minnesota	United States
2017 per capita income	\$33,948	\$32,307	\$34,712	\$31,177
2017 median household income	\$70,375	\$61,973	\$65,699	\$57,652
2017 median family income	\$92,297	\$73,031	\$82,785	\$70,850
2017 median gross rent	\$670	\$694	\$906	\$982
2017 median value owner occupied units	\$198,500	\$167,300	\$199,700	\$193,500
2017 median age	44.0 yrs.	45.0 yrs.	37.9 yrs.	37.8 yrs.

	State of Minnesota	United States
District % of 2017 per capita income	97.80%	108.89%
District % of 2017 median family income	111.49%	130.27%

Source: 2000 and 2010 Census of Population and Housing, and 2017 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>	
	Wabasha County	Wabasha County	State of Minnesota	State of Minnesota
2015	11,539	3.8%	3.7%	
2016	11,604	3.7%	3.9%	
2017	11,762	3.3%	3.4%	
2018	11,934	2.9%	2.9%	
2019, November	12,204	3.2%	2.9%	

Source: Minnesota Department of Employment and Economic Development.

APPENDIX A

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the District's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The District has not requested 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.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805**

**FINANCIAL STATEMENT AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2019

INTRODUCTORY SECTION		
BOARD OF EDUCATION AND ADMINISTRATION	1	
FINANCIAL SECTION		
INDEPENDENT AUDITORS' REPORT	2	56
REQUIRED SUPPLEMENTARY INFORMATION		
MANAGEMENT'S DISCUSSION AND ANALYSIS	5	
BASIC FINANCIAL STATEMENTS		
STATEMENT OF NET POSITION	15	
STATEMENT OF ACTIVITIES	16	
BALANCE SHEET – GOVERNMENTAL FUNDS	18	
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	20	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	21	
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	23	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	24	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – FOOD SERVICE FUND	25	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	26	
STATEMENT OF FIDUCIARY NET POSITION	27	
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	27	
NOTES TO FINANCIAL STATEMENTS	28	
REQUIRED SUPPLEMENTARY INFORMATION		
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS		56
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		57
SCHEDULE OF DISTRICT CONTRIBUTIONS		58
OTHER REQUIRED REPORTS		
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		59
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE		61
SCHEDULE OF FINDINGS AND RESPONSES		62
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE		63
STUDENT ACTIVITY FUNDS		
INDEPENDENT AUDITORS' REPORT		64
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS – HIGH SCHOOL EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS		66
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS		67
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE MANUAL FOR ACTIVITY FUND ACCOUNTING		68

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2019

Jean Roth	Chairperson
Jason Lohmann	Vice-Chairperson
James Wendt	Treasurer
Angie Bredehoff	Clerk
Amanda Peters	Director
Stephanie Miller	Director
	ADMINISTRATION
Michael Harvey	Superintendent of Schools



INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2805
Mazeppa, 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. 2805 (the District) 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. 2805 as of June 30, 2019, and the respective changes in financial position and budgetary comparison for General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Independent School District No. 2805'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 October 11, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the District's Total OPEB Liability and Related Ratios, 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

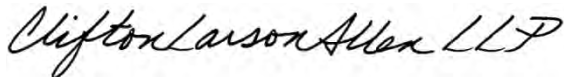
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 2805's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Uniform Financial Accounting and Reporting Standards Compliance Table is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019, on our consideration of Independent School District No. 2805's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Independent School District No. 2805'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. 2805's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Rochester, Minnesota
October 10, 2019

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

This section of Zumbrota-Mazeppa Public Schools – Independent School District 2805'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.

FINANCIAL HIGHLIGHTS

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

- The unassigned general fund balance used for instructional purposes, business operations and maintenance decreased from \$2,200,970 to \$1,376,929.
- The food service fund balance increased from \$40,618 to \$57,261.
- The community service fund balance decreased from \$253,374 to \$216,209.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *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 outflows 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.

(5)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The two district-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets and deferred outflows 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 is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used 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.

(6)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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 was \$(3,954,742) on June 30, 2019. (See Table A-1).

Table A-1
The District's Net Position

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 9,644,964	\$ 8,717,154	10.64 %
Capital Assets	12,268,242	12,865,149	(4.64)
Total Assets	21,913,206	21,582,303	1.53
Deferred Outflows of Resources	9,519,697	12,011,383	(20.74)
Current Liabilities	2,830,372	2,731,858	3.61
Long-Term Liabilities	17,010,058	31,712,980	(46.36)
Total Liabilities	19,840,430	34,444,838	(42.40)
Deferred Inflows of Resources	15,547,215	7,148,336	117.49
Net Position:			
Net Investment in Capital Assets	2,231,033	1,729,544	29.00
Restricted	1,384,682	1,159,889	19.38
Unrestricted	(7,570,457)	(10,888,921)	(30.48)
Total Net Position	\$ (3,954,742)	\$ (7,999,488)	(50.56)

(7)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$17,648,022 for the year ended June 30, 2019. Property taxes and state formula aid accounted for 72% of total revenue for the year. (See Figure A-1.) Another 1 % came from other general revenues combined with investment earnings and the remainder from program revenues.

Table A-2
Change in Net Position

	Governmental Activities for the		Percentage Change
	Fiscal Year Ended June 30, 2019	2018	
Revenues			
Program Revenues	\$ 1,720,653	\$ 2,103,817	(18.21)%
Charges for Services	2,793,005	2,604,319	7.25
Operating Grants and Contributions	249,689	215,637	15.79
Capital Grants and Contributions	3,752,138	3,178,736	18.04
Property Taxes	9,013,865	8,874,127	1.57
General Revenues	63,355	53,831	17.69
Unrestricted State Aid	55,317	129,985	(57.44)
Investment Earnings			
Other	17,648,022	17,160,452	2.84
Total Revenues			
Expenses			
Administration	619,984	935,878	(33.75)
District Support Services	360,733	319,762	12.81
Regular Instruction	5,241,774	8,476,113	(38.16)
Vocational Education Instruction	343,855	709,676	(51.55)
Special Education Instruction	2,187,854	2,738,452	(20.11)
Instructional Support Services	639,120	1,242,796	(48.57)
Pupil Support Services	1,042,557	1,157,331	(9.92)
Sites and Buildings	1,252,706	1,124,910	11.36
Fiscal and Other Fixed Cost Programs	56,079	54,518	2.86
Food Service	592,322	574,249	3.15
Community Service	1,026,768	1,121,557	(8.45)
Interest and Fiscal Charges on			
Long-Term Liabilities	239,524	477,429	(49.83)
Total Expenses	13,603,276	18,932,671	(28.15)
Change in Net Position	4,044,746	(1,772,219)	
Beginning Net Position, as Previously Stated	(7,999,488)	(5,549,377)	
Restatement	-	(677,892)	
Beginning Net Position, as Restated	(7,999,488)	(6,227,269)	
Ending Net Position	\$ (3,954,742)	\$ (7,999,488)	

The total cost of all programs and services excluding interest and fiscal charges was \$13,363,752. Total revenues exceeded expenses by \$4,044,746. The net position had a year-end balance of \$(3,954,742).

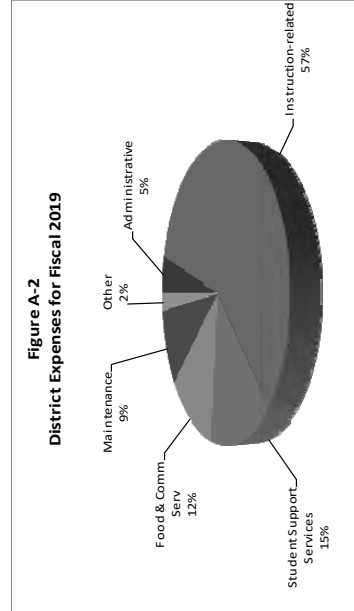
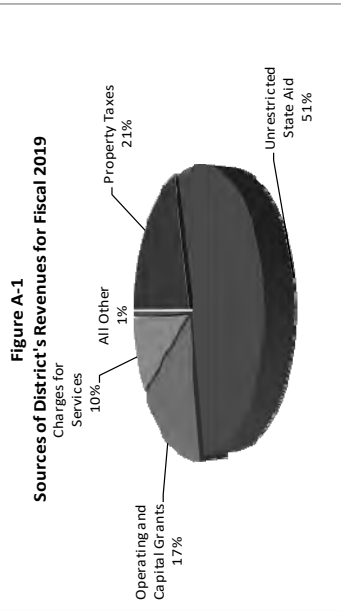
(8)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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 this year was \$13,603,276.

- Some of the cost was paid by the users of the District's programs (\$1,720,653).
- The federal and state governments subsidized certain programs with grants and contributions (\$3,042,694).
- Most of the District's costs (\$12,884,675), however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$3,752,138 in property taxes, \$9,013,865 of state aid and with investment earnings and other general revenues.



(9)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Typically, the District does not include in an analysis of all governmental funds a breakout of expenditures as depicted in Figure A-2. To do so distorts the latitude available to the District to allocate resources to instruction. All governmental funds include not only funds received for the general operation of the District, which are used for classroom instruction, but also includes resources from the entrepreneurial-type funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction. The above graph, by pooling all expenditures, implies that the District does have equal access to all funds to impact classroom instruction. In Minnesota, that is simply not an option. Therefore, a more accurate analysis of resources allocated to instruction should be limited to an analysis of resources received for the general operation of the District and that analysis would show that 70% of those resources are spent on instruction.

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	\$ 619,984	\$ 935,878	\$ 603,733	\$ 916,269	-34.11%
District Support Services	360,733	319,782	270,739	269,017	0.64%
Regular Instruction	5,241,774	8,476,113	4,298,501	7,473,297	-42.48%
Vocational Education Instruction	343,655	709,676	91,662	39,901	130.22%
Special Education Instruction	2,187,854	2,738,452	745,443	1,475,246	-49.47%
Instructional Support Services	639,120	1,242,796	236,139	846,639	-72.07%
Pupil Support Services	1,042,557	1,157,331	1,021,467	1,141,837	-10.54%
Sites and Buildings	1,252,706	1,124,910	1,193,951	1,120,601	6.55%
Fiscal and Other Fixed Cost Programs	86,079	54,518	86,079	54,518	2.86%
Food Service	582,322	574,249	(18,123)	(8,904)	103.34%
Community Service	1,026,766	1,121,557	132,564	235,236	-43.66%
Interest and Fiscal Charges on Long-Term Liabilities	239,524	477,429	207,274	445,179	-53.44%
	<u>\$ 13,603,276</u>	<u>\$ 18,932,671</u>	<u>\$ 6,839,526</u>	<u>\$ 14,093,896</u>	-26.15%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$4,285,384, \$769,165 more than last year's ending fund balance of \$3,516,219.

Revenues for the District's governmental funds were \$17,586,580 while total expenditures were \$16,864,172.

GENERAL FUND

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12 including pupil transportation activities and capital outlay projects.

(10)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

Approximately 90% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local Board of Education having no meaningful authority to determine the level of resources. This includes special education state aid that is based, in part, upon a cost reimbursement model providing approximately 68% of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

ENROLLMENT

Enrollment is a critical factor in determining revenue with approximately 90% of General Fund revenue being determined by enrollment. The following chart shows that the number of students has increased over the last five years.

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

Grade	2015	2016	2017	2018	2019
Kdgt.	99	113	97	112	89
1-3	278	269	286	274	289
4-6	267	275	283	291	283
7-12	495	508	524	537	544
Total K-12 ADM	1,139	1,165	1,190	1,214	1,205
ADM Change	34	26	25	24	(9)
Percent Change	3.0%	2.2%	2.1%	2.0%	-0.7%

Over the last five years the District has experienced an increase in average daily membership by 100 students or 9.0%. It is anticipated that the kindergarten and pre-school population will remain steady the next 2-3 years averaging approximately 95-100 per class as compared to approximately 85 students graduating annually.

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	Year Ended			Change
	June 30, 2019	June 30, 2018	Increase (Decrease)	
Local Sources:				
Property Taxes	\$ 2,879,265	\$ 2,150,109	\$ 729,156	33.9 %
Earnings on Investments	74,888	30,634	44,254	144.5
Other	625,227	1,123,986	(498,759)	(44.4)
State Sources	11,105,217	10,926,842	178,375	1.6
Federal Sources	170,372	163,369	7,003	4.3
Total General Fund Revenue	\$ 14,854,969	\$ 14,394,940	\$ 460,029	3.2

(11)

GENERAL FUND (CONTINUED)

Total General Fund Revenue increased by \$460,029 or 3.2% over the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2019	June 30, 2018		
Salaries	\$ 7,337,830	\$ 6,947,245	\$ 390,585	5.6%
Employee Benefits	2,050,811	1,926,211	124,600	6.5%
Purchased Services	3,319,776	3,088,711	231,065	7.5%
Supplies and Materials	558,058	648,102	(90,044)	-13.9%
Capital Expenditures	458,702	389,892	68,810	17.6%
Other Expenditures	478,611	439,070	39,541	9.0%
Total Expenditures	\$ 14,203,788	\$ 13,439,231	\$ 764,557	5.7%

Total General Fund Expenditures increased \$764,557 or 5.7% from the previous year. The main increases were in capital expenditures of 17.6% and salaries and benefits of 5.8% over the previous year.

General Fund Budgetary Highlights

The District projects a budget in the spring for the next school year and adopts a budget in the summer. The budget change is resultant from some of the following factors:

- Enrollment changes
- Changes in special education funding due to the timing of the formulas
- Expenditure adjustments due to contract changes and unanticipated costs

The actual general fund expenditures were \$155,511 over budget and revenues were \$28,823 less than anticipated.

This fund includes long-term facilities maintenance, capital, and operating functions. Long-term facilities maintenance projects resulted in an increase of \$204,197 to the general fund balance and operating capital functions resulted in a decrease of \$94,127 to the general fund balance.

(12)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

The general fund expenditures were \$155,511 more than budgeted. The difference amounted to about 1.1% of an expenditure budget that was just over \$14.0 million. There were expenditure categories that were over-budget such as instruction, pupil support and capital outlay. These were offset, in part, by \$101,570 for sites and buildings and \$145,760 for vocational education instruction.

DEBT SERVICE FUNDS

The Debt Service Fund balance increased \$91,749. The fund balance of \$286,071 at June 30, 2019 is available for meeting future debt service obligations.

OTHER MAJOR FUNDS

The Community Service Fund balance decreased by \$37,165. This was \$8,204 more than anticipated.

The Food Service Fund balance increased by \$16,643. This was \$10,785 more of an increase than the \$5,858 increase that was anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2019, the District had invested over \$12.2 million in a broad range of capital assets, net of accumulated depreciation including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Table A-7.) (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year exceeded \$820,000.

**Table A-7
Capital Assets**

	2019	2018	Percentage Change
Land	\$ 92,949	\$ 92,949	-
Construction in Progress	-	-	N/A
Land Improvements	757,313	757,313	-
Buildings and Improvements	23,054,322	22,983,453	0.3
Equipment	2,448,393	2,389,820	2.5
Less: Accumulated Depreciation	(14,084,735)	(13,368,386)	5.4
Total District Capital Assets	<u>\$ 12,268,242</u>	<u>\$ 12,865,149</u>	(4.6)

(13)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had \$8,745,000 in general obligation bonds outstanding – a decrease of 8.9% under last year – and \$1,108,557 in capital leases payable – a decrease of 17.1% under last year – as shown in Note 5 to Financial Statements.

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

	2019	2018	Percentage Change
General Obligation Bonds	\$ 8,745,000	\$ 9,595,000	(8.9)%
Net Bond Premium and Discount	214,591	238,583	(10.1)
Capital Leases Payable	1,108,557	1,336,602	(17.1)
Compensated Absences Payable	49,670	44,414	11.8
Total Long-Term Liabilities	<u>\$ 10,117,818</u>	<u>\$ 11,214,599</u>	(9.8)
Long-Term Liabilities:			
Due Within One Year	\$ 1,150,317	\$ 1,121,973	
Due in More Than One Year	<u>8,967,501</u>	<u>10,092,626</u>	
Total	<u>\$ 10,117,818</u>	<u>\$ 11,214,599</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District passed an operating levy referendum in 2017 increasing the amount of revenue per student from \$950 to \$1,250, which has an inflationary factor that started in 2018-2019.

The financial goal of the District is to avoid going into statutory operating debt and to maintain fund balances which allow it to serve students in the best way possible throughout the 10 years of the current levy authority and beyond.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office, Independent School District 2805, 343 Third Avenue NE, Mazeppa, Minnesota 55956.

(14)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF NET POSITION
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Governmental Activities	
	2019	2018
ASSETS		
Cash and Investments	\$ 6,211,422	\$ 5,815,886
Receivables:		
Property Taxes	1,933,816	1,847,844
Other Governments	1,170,770	884,037
Other	20,475	17,599
Prepaid Items	3,594	12,936
Inventories	13,931	21,030
Land Held for Resale	290,956	117,822
Capital Assets:		
Land and Construction in Progress	92,949	92,949
Other Capital Assets, Net of Depreciation	12,175,293	12,772,200
Total Assets	<u>21,913,206</u>	<u>21,582,303</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	9,386,860	11,908,399
Other Postemployment Benefits Related	101,898	68,404
Deferred Amount on Bond Refunding	30,939	34,580
Total Deferred Outflows of Resources	<u>9,519,697</u>	<u>12,011,383</u>
LIABILITIES		
Salaries Payable	1,334,190	1,276,574
Accounts and Contracts Payable	155,228	158,968
Accrued Interest	93,171	102,840
Due to Other Governmental Units	55,816	24,709
Unearned Revenue	41,650	46,794
Long-Term Liabilities:		
Portion Due Within One Year	1,150,317	1,121,973
Portion Due in More Than One Year	8,967,501	10,092,626
Net Pension Liability	7,577,494	21,131,502
Other Postemployment Benefits Liability (Asset)	465,063	488,852
Total Liabilities	<u>19,840,430</u>	<u>34,444,838</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	3,748,171	3,674,518
Deferred Inflows - Pensions	11,799,044	3,473,818
Total Deferred Inflows of Resources	<u>15,547,215</u>	<u>7,148,336</u>
NET POSITION		
Net Investment in Capital Assets	2,231,033	1,729,544
Restricted for:		
General Fund Operating Capital Purposes	187,769	281,896
General Fund State-Mandated Reserves	561,156	347,011
Technology	8,348	11,874
Food Service	57,261	40,618
Community Service	371,293	381,690
Debt Service	198,855	96,800
Unrestricted	(7,570,457)	(10,888,921)
Total Net Position	<u>\$ (3,954,742)</u>	<u>\$ (7,999,488)</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

Functions	2019		
	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	\$ 619,984	\$ -	\$ 16,251
District Support Services	360,733	-	-
Regular Instruction	5,241,774	167,380	666,121
Vocational Education Instruction	343,855	238,792	13,201
Special Education Instruction	2,187,854	125,609	1,316,802
Instructional Support Services	639,120	32,335	370,346
Pupil Support Services	1,042,557	-	21,090
Sites and Buildings	1,252,706	8,832	-
Fiscal and Other Fixed Cost Programs	56,079	-	-
Food Service	592,322	353,842	256,603
Community Service	1,026,768	793,863	100,341
Interest and Fiscal Charges on Long-Term Liabilities	239,524	-	32,250
Total School District	\$ 13,603,276	\$ 1,720,653	\$ 2,793,005

General Revenues

Property Taxes Levied for:
 General Purposes
 Community Service
 Debt Service
 State Aid Not Restricted to Specific Purposes
 Earnings on Investments
 Miscellaneous
 Gain on Sale of Capital Assets
 Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

2019		2018	
Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position Total Governmental Activities	Net (Expense) Revenue and Change in Net Position Total Governmental Activities	Net (Expense) Revenue and Change in Net Position Total Governmental Activities
\$ -	\$ (603,733)	\$ (916,269)	\$ (916,269)
89,994	(270,739)	(269,017)	(269,017)
109,772	(4,298,501)	(7,473,297)	(7,473,297)
-	(91,862)	(39,901)	(39,901)
-	(745,443)	(1,475,246)	(1,475,246)
-	(236,439)	(846,639)	(846,639)
-	(1,021,467)	(1,141,837)	(1,141,837)
49,923	(1,193,951)	(1,120,601)	(1,120,601)
-	(56,079)	(54,518)	(54,518)
-	18,123	8,904	8,904
-	(132,564)	(235,298)	(235,298)
-	(207,274)	(445,179)	(445,179)
<u>\$ 249,689</u>	<u>(8,839,929)</u>	<u>(14,008,898)</u>	<u>(14,008,898)</u>
	2,883,755	2,144,162	2,144,162
	160,213	180,460	180,460
	708,170	854,114	854,114
	9,013,865	8,874,127	8,874,127
	63,355	53,831	53,831
	55,317	129,559	129,559
	-	426	426
	<u>12,884,675</u>	<u>12,236,679</u>	<u>12,236,679</u>
	4,044,746	(1,772,219)	(1,772,219)
	<u>(7,999,488)</u>	<u>(6,227,269)</u>	<u>(6,227,269)</u>
	<u>\$ (3,954,742)</u>	<u>\$ (7,999,488)</u>	<u>\$ (7,999,488)</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 5,083,756	\$ 58,187	\$ 424,742
Receivables:			
Current Property Taxes	1,335,918	-	103,251
Delinquent Property Taxes	17,361	-	1,209
Accounts and Interest Receivable	6,278	485	13,712
Due from Other Minnesota School Districts	78,455	-	-
Due from Minnesota Department of Education	1,005,742	-	5,483
Due from Federal through Minnesota Department of Education	30,113	16,978	-
Due from Other Governmental Units	-	-	-
Inventory	-	13,931	-
Land Held for Resale	290,956	-	-
Prepays	3,594	-	-
Total Assets	<u>\$ 7,852,173</u>	<u>\$ 89,581</u>	<u>\$ 548,397</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities:			
Salaries and Compensated Absences Payable	\$ 967,009	\$ 500	\$ 71,806
Payroll Deductions and Employer Contributions Payable	283,636	-	11,239
Accounts and Contracts Payable	131,757	17,399	6,072
Due to Other Governmental Units	58,314	36	(2,534)
Unearned Revenue	-	14,385	27,265
Total Liabilities	<u>1,440,716</u>	<u>32,320</u>	<u>113,848</u>
Deferred Inflows of Resources:			
Unavailable Revenue - Property Taxes Levied for Subsequent Year	2,668,253	-	217,131
Unavailable Revenue - Delinquent Property Taxes	17,361	-	1,209
Total Deferred Inflows of Resources	<u>2,685,614</u>	<u>-</u>	<u>218,340</u>
Fund Balance:			
Nonspendable:			
Inventory	-	13,931	-
Land Held for Resale	290,956	-	-
Prepays	3,594	-	-
Restricted for:			
Staff Development	87,950	-	-
Health and Safety	-	-	-
Operating Capital	187,769	-	-
Learning and Development	2,342	-	-
Community Education	-	-	335,803
Early Childhood and Family Education	-	-	2,602
Gifted and Talented	676	-	-
Teacher Development and Evaluation	8,070	-	-
Basic Skills Programs	1,536	-	-
Safe Schools Levy	23,131	-	-
LTFM	376,381	-	-
Medical Assistance	61,070	-	-
Restricted for Other Purposes	8,348	43,330	31,679
Committed for:			
Retirement Benefits	140,000	-	-
Vehicle Replacement	170,000	-	-
Roof Repairs	400,000	-	-
Land Purchase	500,000	-	-
Assigned for:			
School Purposes	45,098	-	-
Student Activities	41,993	-	-
Unassigned	1,376,929	-	(153,875)
Total Fund Balance	<u>3,725,843</u>	<u>57,261</u>	<u>216,209</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 7,852,173</u>	<u>\$ 89,581</u>	<u>\$ 548,397</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

Debt Service	Total Governmental Funds	
	2019	2018
\$ 644,737	\$ 6,211,422	\$ 5,815,886
470,122	1,909,291	1,828,472
5,955	24,525	19,372
-	20,475	17,599
-	78,455	77,040
33,999	1,045,224	775,067
-	47,091	30,681
-	-	1,249
-	13,931	21,030
-	290,956	117,822
-	3,594	12,936
<u>\$ 1,154,813</u>	<u>\$ 9,644,964</u>	<u>\$ 8,717,154</u>
\$ -	\$ 1,039,315	\$ 1,001,939
-	294,875	274,635
-	155,228	158,968
-	55,816	24,709
-	41,650	46,794
-	<u>1,586,884</u>	<u>1,507,045</u>
862,787	3,748,171	3,674,518
5,955	24,525	19,372
<u>868,742</u>	<u>3,772,696</u>	<u>3,693,890</u>
-	13,931	21,030
-	290,956	117,822
-	3,594	12,936
-	87,950	72,280
-	-	4,093
-	187,769	281,896
-	2,342	3,914
-	335,803	349,414
-	2,602	3,665
-	676	5,552
-	8,070	9,323
-	1,536	-
-	23,131	23,113
-	376,381	172,184
-	61,070	56,552
286,071	369,428	253,212
-	140,000	-
-	170,000	-
-	400,000	-
-	500,000	-
-	45,098	16,087
-	41,993	39,309
-	1,223,054	2,073,837
<u>286,071</u>	<u>4,285,384</u>	<u>3,516,219</u>
<u>\$ 1,154,813</u>	<u>\$ 9,644,964</u>	<u>\$ 8,717,154</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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)**

	<u>2019</u>	<u>2018</u>
Total Fund Balance for Governmental Funds	\$ 4,285,384	\$ 3,516,219
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	92,949	92,949
Construction in Progress	-	-
Land Improvements, Net of Accumulated Depreciation	104,889	119,704
Buildings and Improvements, Net of Accumulated Depreciation	11,376,056	12,015,513
Equipment, Net of Accumulated Depreciation	694,348	636,983
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 unavailable revenue in the funds.		
	24,525	19,372
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.		
	(93,171)	(102,840)
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	(7,577,494)	(21,131,502)
Deferred Inflows of Resources - Pensions	(11,799,044)	(3,473,818)
Deferred Outflows of Resources - Pensions	9,386,860	11,908,399
The District's Other Postemployment Benefits Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:		
Other Postemployment Benefits Liability (Asset)	(465,063)	(488,852)
Deferred Outflows of Resources - Other Postemployment Benefits	101,898	68,404
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	(8,745,000)	(9,595,000)
Unamortized Premiums	(214,591)	(238,583)
Unamortized Discounts	-	-
Capital Leases Payable	(1,108,557)	(1,336,602)
Lot Promissory Note	-	-
Deferred Amount on Bond Refunding	30,939	34,580
Compensated Absences Payable	(49,670)	(44,414)
Total Net Position of Governmental Activities	<u>\$ (3,954,742)</u>	<u>\$ (7,999,488)</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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)**

	General	Food Service	Major Community Service
REVENUES			
Local Sources:			
Property Taxes	\$ 2,879,265	\$ -	\$ 160,187
Earnings and Investments	74,888	1,781	7,117
Other	625,227	348,413	797,576
State Sources	11,105,217	27,223	105,036
Federal Sources	170,372	229,279	-
Total Revenues	<u>14,854,969</u>	<u>606,696</u>	<u>1,069,916</u>
EXPENDITURES			
Current:			
Administration	784,622	-	-
District Support Services	328,472	-	-
Elementary and Secondary Regular Instruction	6,159,064	-	-
Vocational Education Instruction	401,816	-	-
Special Education Instruction	2,535,132	-	-
Instructional Support Services	819,847	-	-
Pupil Support Services	1,103,272	-	-
Sites and Buildings	1,172,442	-	-
Fiscal and Other Fixed Cost Programs	56,079	-	-
Food Service	-	590,053	-
Community Service	-	-	1,107,081
Capital Outlay	458,702	-	-
Debt Service:			
Principal	303,045	-	-
Interest and Fiscal Charges	81,295	-	-
Total Expenditures	<u>14,203,788</u>	<u>590,053</u>	<u>1,107,081</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	651,181	16,643	(37,165)
OTHER FINANCING SOURCES (USES)			
Sale of Equipment	11,500	-	-
Insurance Recovery	35,257	-	-
Payment on Refunded Bonds	-	-	-
Total Other Financing Sources (Uses)	<u>46,757</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	697,938	16,643	(37,165)
FUND BALANCES			
Beginning of Year	3,027,905	40,618	253,374
End of Year	<u>\$ 3,725,843</u>	<u>\$ 57,261</u>	<u>\$ 216,209</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

Debt Service	Total Governmental Funds	
	2019	2018
\$ 707,533	\$ 3,746,985	\$ 3,188,054
11,819	95,605	86,081
-	1,771,216	2,246,279
335,647	11,573,123	11,265,295
-	399,651	383,108
<u>1,054,999</u>	<u>17,586,580</u>	<u>17,168,817</u>
-	784,622	731,409
-	328,472	351,016
-	6,159,064	5,730,441
-	401,816	528,781
-	2,535,132	2,342,100
-	819,847	904,268
-	1,103,272	1,058,242
-	1,172,442	1,005,337
-	56,079	54,518
-	590,053	572,021
-	1,107,081	1,109,997
-	458,702	455,322
775,000	1,078,045	922,483
188,250	269,545	660,000
<u>963,250</u>	<u>16,864,172</u>	<u>16,425,935</u>
91,749	722,408	742,882
-	11,500	426
-	35,257	-
-	-	(8,145,000)
<u>-</u>	<u>46,757</u>	<u>(8,144,574)</u>
91,749	769,165	(7,401,692)
194,322	3,516,219	10,917,911
<u>\$ 286,071</u>	<u>\$ 4,285,384</u>	<u>\$ 3,516,219</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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	\$ 769,165	\$ (7,401,692)
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	232,946	241,878
Gain (Loss) on Disposal of Capital Assets	4,659	(16,212)
Proceeds from the Sales of Capital Assets	(11,500)	(426)
Depreciation Expense	(823,012)	(803,819)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the governmental funds.		
	5,153	(9,318)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Change in Accrued Interest - Capital Leases	2,695	2,527
Principal Payments - Capital Leases	228,045	210,816
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.		
	2,707,243	(3,056,469)
Other postemployment benefit expenses in the governmental funds are measured by current year employer contributions. Pension expenditures on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.		
	57,283	23,027
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 Bond Proceeds	-	-
Bond Premium	-	-
Loss on Refunding Bonds	-	36,097
Payment on Refunded Bonds	-	8,145,000
Deferred Charges on Refunding Bonds	(3,641)	(1,517)
Repayment of Bond Principal	850,000	645,000
Change in Compensated Absences Payable	(5,256)	757
Change in Accrued Interest - General Obligation Bonds	6,974	159,693
Amortization of Bond Premium	23,992	23,992
Amortization of Bond Discount	-	(38,220)
Payment of Lot Promissory Note Payable	-	66,667
Total	\$ 4,044,746	\$ (1,772,219)

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – 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	\$ 2,896,554	\$ 2,896,554	\$ 2,879,265	\$ (17,289)
Earnings and Investments	10,000	10,000	74,888	64,888
Other	722,283	722,283	625,227	(97,056)
State Sources	11,131,615	11,131,615	11,105,217	(26,398)
Federal Sources	123,340	123,340	170,372	47,032
Total Revenues	<u>14,883,792</u>	<u>14,883,792</u>	<u>14,854,969</u>	<u>(28,823)</u>
EXPENDITURES				
Current:				
Administration	755,142	755,142	784,622	29,480
District Support Services	339,890	339,890	328,472	(11,418)
Elementary and Secondary Regular Instruction	5,840,486	5,840,486	6,159,064	318,578
Vocational Education Instruction	547,576	547,576	401,816	(145,760)
Special Education Instruction	2,487,375	2,487,375	2,535,132	47,757
Instructional Support Services	909,911	909,911	819,847	(90,064)
Pupil Support Services	1,065,040	1,065,040	1,103,272	38,232
Sites and Buildings	1,274,012	1,274,012	1,172,442	(101,570)
Fiscal and Other Fixed Cost Programs	55,548	55,548	56,079	531
Capital Outlay	388,955	388,955	458,702	69,747
Debt Service:				
Principal	303,045	303,045	303,045	-
Interest and Fiscal Charges	81,297	81,297	81,295	(2)
Total Expenditures	<u>14,048,277</u>	<u>14,048,277</u>	<u>14,203,788</u>	<u>155,511</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	835,515	835,515	651,181	(184,334)
OTHER FINANCING SOURCES				
Sale of Equipment	-	-	11,500	11,500
Insurance Recovery	-	-	35,257	35,257
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>46,757</u>	<u>46,757</u>
Net Change in Fund Balance	<u>\$ 835,515</u>	<u>\$ 835,515</u>	697,938	<u>\$ (137,577)</u>
FUND BALANCE				
Beginning of Year			3,027,905	
End of Year			<u>\$ 3,725,843</u>	

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings and Investments	\$ -	\$ -	\$ 1,781	\$ 1,781
Other - Primarily Meal Sales	340,412	340,412	348,413	8,001
State Sources	26,265	26,265	27,223	958
Federal Sources	249,725	249,725	229,279	(20,446)
Total Revenues	<u>616,402</u>	<u>616,402</u>	<u>606,696</u>	<u>(9,706)</u>
EXPENDITURES				
Current:				
Food Service	610,544	610,544	590,053	(20,491)
Total Expenditures	<u>610,544</u>	<u>610,544</u>	<u>590,053</u>	<u>(20,491)</u>
Net Change in Fund Balance	<u>\$ 5,858</u>	<u>\$ 5,858</u>	16,643	<u>\$ 10,785</u>
FUND BALANCE				
Beginning of Year			40,618	
End of Year			<u>\$ 57,261</u>	

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 164,882	\$ 164,882	\$ 160,187	\$ (4,695)
Earnings and Investments	-	-	7,117	7,117
Other - Primarily Tuition and Fees	786,381	786,381	797,576	11,195
State Sources	93,031	93,031	105,036	12,005
Total Revenues	<u>1,044,294</u>	<u>1,044,294</u>	<u>1,069,916</u>	<u>25,622</u>
EXPENDITURES				
Current:				
Community Service	1,071,755	1,071,755	1,107,081	35,326
Capital Outlay	1,500	1,500	-	(1,500)
Total Expenditures	<u>1,073,255</u>	<u>1,073,255</u>	<u>1,107,081</u>	<u>33,826</u>
Net Change in Fund Balance	<u>\$ (28,961)</u>	<u>\$ (28,961)</u>	(37,165)	<u>\$ (8,204)</u>
FUND BALANCE				
Beginning of Year			<u>253,374</u>	
End of Year			<u>\$ 216,209</u>	

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

	Private-Purpose Trust
ASSETS	
Cash and Investments	\$ 65,316
LIABILITIES	
Accounts and Contracts Payable	5,300
NET POSITION	
Held In Trust	\$ 60,016

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2019**

	Private-Purpose Trust
ADDITIONS	
Gifts and Donations	\$ 2,952
Earnings on Investments	952
Total Additions	3,904
DEDUCTIONS	
Scholarships Awarded	5,500
Total Deductions	5,500
Change in Net Position	(1,596)
Net Position - Beginning of Year	61,612
Net Position - End of Year	\$ 60,016

See accompanying Notes to Financial Statements.

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 2805 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. 2805 (the District) is an instrumentality of the state of Minnesota established to function as an education institution. The elected Board of Education (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 included all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds 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 Board of Education does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. In accordance with Minnesota state statutes, the District's Board of Education 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 Board of Education has also not elected to control or exercise oversight responsibility with respect to other student activities. Accordingly, those student activity accounts are not included in these financial statements.

(28)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

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.

C. Basic Financial Statement Presentation

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

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

D. Measurement Focus and Basis of Accounting

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

(29)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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 the accounting principles generally accepted in the United States of America. Minnesota statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

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

Description of Funds

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

Major Governmental Funds

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

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

(30)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of local property taxes, state tax credits, state aids, and user fees restricted for the Community Service Special Revenue program.

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

Fiduciary Funds

Private Purpose Trust Fund – The Private Purpose Trust Fund is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donor.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 or within one week of the acceptance of the final audit by the Board of Education each year. Reported budgeted amounts represent the amended budget as adopted by the Board of Education. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board of Education 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 Board of Education action. Revisions to budgeted amounts must be approved by the Board of Education.

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

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

(31)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

Cash and investments consist of interest bearing accounts, certificates of deposit, and money market accounts. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

G. Accounts Receivable

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

H. 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.

I. Inventories

Inventories are recorded using the consumption method of accounting and consist of food 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.

J. Land Held for Resale

Land held for resale is recorded at the lower of cost or fair value and consists of lots to be used for building homes for vocational construction classes.

K. Property Taxes

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to 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.

(32)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 (frozen at \$152,693) for the District. Certain other portions of the District's 2018 Pay 2019 levy, normally revenue for the 2019-19 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 Property Taxes Levied for Subsequent Years to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

L. Capital Assets

Capital assets are capitalized as historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District capitalizes all computer hardware assets and maintains a threshold level of \$1,000 for capitalizing all other assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

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

(33)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

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

M. Long-Term Obligations

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

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

N. Compensated Absences

Vacation Pay

Full-time, noncertified employees earn annual vacation pay based on length of service in the District. The amount of vacation days the employees earn is based on their years of service and their agreed upon contracts. All outstanding unpaid vacation is payable upon termination of employment. At June 30, 2019, unpaid vacation pay totaling \$49,670 is recorded in the financial statements and is included in compensated absences payable.

O. Other Postemployment Benefits (OPEB)

Under the terms of certain collectively bargained employment contracts, including the teachers' and administrators' contracts, the District makes contributions toward the health insurance premiums of certain retired employees. All premiums are funded on a pay-as-you-go basis. The District also has an implicit rate subsidy for OPEB. This amount was actuarially determined, in accordance with GASB Statement No. 75.

P. Pension

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

(34)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has three items that qualifies for reporting as this element – pension related, other postemployment benefits related and deferred loss on refunding.

R. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s), and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type, pension related, is reported in the statement of net position. These amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

S. 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 user fees.

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 prepaids, inventory, and land held for sale. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently does not report any committed fund balances. The Board of Education passed a resolution authorizing the Superintendent and the Business Manager the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

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

(35)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Fund Balance (Continued)

The District has a minimum fund balance policy, which identifies a minimum unassigned fund balance in the General Fund of \$1.2 Million starting in FY18, with plans to increase this amount by \$240,000 annually through the FY22 school year.

U. Risk Management

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters, and workers' compensation. The District purchases commercial insurance coverage for such risks.

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

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

V. Net Position

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

W. Summarized Comparative Information

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

(36)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Expenditures	Excess
General Fund	\$ 14,048,277	\$ 14,203,788	\$ 155,511
Special Revenue Funds:			
Community Service Fund	1,073,255	1,107,081	33,826

The expenditures in excess of budget were covered by revenues and existing fund balance.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

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

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with Minnesota statutes, the District maintains deposits at financial institutions which are authorized by the 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 District's deposits in banks at June 30, 2019 were not fully covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes. The District's accounts were fully collateralized at June 30, 2019.

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

Deposits	\$ 6,276,370
Cash on Hand	368
Total Cash and Investments	\$ 6,276,738
Cash and Investments - Statement of Net Position	\$ 6,211,422
Cash and Investments - Statement of Fiduciary Net Position	65,316
Total Cash and Investments	\$ 6,276,738

(37)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 92,949	\$ -	\$ -	\$ 92,949
Total Capital Assets, Not Being Depreciated	\$ 92,949	\$ -	\$ -	\$ 92,949
Capital Assets, Being Depreciated				
Land Improvements	757,313	-	-	757,313
Buildings and Improvements	22,983,453	60,869	-	23,044,322
Equipment	2,389,820	172,077	(113,504)	2,448,393
Total Capital Assets, Being Depreciated	26,140,586	232,946	(113,504)	26,260,028
Accumulated Depreciation for:				
Land Improvements	(637,609)	(14,815)	-	(652,424)
Buildings and Improvements	(10,977,940)	(700,326)	-	(11,678,266)
Equipment	(1,752,837)	(107,871)	106,663	(1,754,045)
Total Accumulated Depreciation	(13,368,386)	(823,012)	106,663	(14,084,735)
Total Capital Assets, Being Depreciated, Net	12,772,200	(590,066)	(6,841)	12,175,293
Governmental Activities Capital Assets, Net	\$ 12,865,149	\$ (590,066)	\$ (6,841)	\$ 12,268,242

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

Governmental Activities	
Administration	\$ 5,088
District Support Services	5,260
Regular Instruction	685,141
Vocational Education Instruction	1,641
Special Education Instruction	4,445
Instructional Support Services	1,967
Pupil Support Services	14,984
Sites and Buildings	93,191
Food Services	2,269
Community Services	9,029
Total Depreciation Expense, Governmental Activities	\$ 823,012

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

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

Issue Date	Interest Rate	Original Issue	Principal Outstanding	
			Due Within One Year	Total
5/1/2013	2.0-2.5%	\$ 8,515,000	\$ 760,000	\$ 7,740,000
12/21/2016	1.65-3.00%	1,080,000	75,000	1,005,000
		Total General Obligation Bonds	835,000	8,745,000
Bond Premiums			-	214,591
Capital Leases Payable			246,424	1,108,557
Compensated Absences Payable			48,893	49,670
			\$ 1,150,317	\$ 10,117,818

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt:

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2020	\$ 885,000	\$ 193,165
2021	885,000	176,348
2022	900,000	158,910
2023	920,000	140,985
2024	940,000	122,665
2025-2029	4,055,000	291,333
2030-2031	190,000	8,550
Total	\$ 8,745,000	\$ 1,091,976

C. Description of Long-Term Debt

General Obligation Alternative Facilities Refunding Bonds, Series 2013A

On May 1, 2013, the District issued \$8,515,000 of General Obligation Alternative Facilities Refunding Bonds, Series 2013A. The proceeds of the issue were used to refund in advance of their stated maturities, the remaining maturities of the District's General Obligation Alternative Facilities Bonds, Series 2008A.

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)
General Obligation Capital Facilities Bonds

On December 21, 2016, the District issued \$1,080,000 of General Obligation Capital Facilities Bonds, Series 2016A. The proceeds of the issue were used to finance certain capital projects, including projects to optimize energy use in the District. Future ad valorem tax levies, are dedicated to retire these bonds.

Capital Leases Payable

The District raised funds through the issuance of two lease purchase agreements during the year ended June 30, 2008. The lease purchase agreement in the amount of \$1,549,370, dated October 30, 2007 was used to finance the addition of various equipment and renovations to buildings designed to produce energy savings. The lease purchase agreement in the amount of \$1,280,000, dated February 5, 2008 was used to finance the renovation of roofing throughout the District. These lease purchase agreements are structured as governmental lease purchase agreements for facility improvements. Under the terms of the agreements, the lessors established escrow accounts to account for the proceeds from the respective issues. The District then made periodic drawdowns on these escrow accounts as facility improvements commenced.

The roofing project was capitalized and has a cost of \$1,280,000 and accumulated depreciation of \$640,000 at June 30, 2019. Also, the energy project was capitalized and has a cost of \$1,404,256 and accumulated depreciation of \$505,532.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2019:

Year Ending June 30,	Amount
2020	\$ 291,772
2021	300,490
2022	309,646
2023	319,259
	<u>1,221,167</u>
Total Minimum Lease Payments	
Less: Amounts Representing Interest	112,610
Present Value of Net Minimum Lease Payments	<u>\$ 1,108,557</u>

Compensated Absences Payable

Compensated absences payable consist of unused vacation days payable to employees upon termination of employment. Compensated absences are paid by the General Fund.

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

	June 30, 2018	Additions	Retirements	June 30, 2019
Bonds Payable	\$ 9,595,000	\$ -	\$ 850,000	\$ 8,745,000
Bond Premiums	238,583	-	23,992	214,591
Capital Leases Payable	1,336,602	-	228,045	1,108,557
Compensated Absences Payable	44,414	5,924	668	49,670
Total	<u>\$ 11,214,599</u>	<u>\$ 5,924</u>	<u>\$ 1,102,705</u>	<u>\$ 10,117,818</u>

NOTE 6 RESTRICTED FUND BALANCES

Fund Equity

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

A. Restricted for Staff Development

In accordance with Minnesota statutes, Restricted for Staff Development represents available resources dedicated exclusively for staff development.

B. Restricted for Health and Safety

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

C. Restricted for Operating Capital

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

D. Restricted for Learning and Development

Represents the available general education revenues for learning and development, which is mainly for reducing the pupil-to-staff ratio.

E. Restricted for Community Education Programs

The fund balance restriction represents accumulated resources available to provide general community education programming.

F. Restricted for Early Childhood and Family Education Programs

The fund balance restriction represents accumulated resources available to provide services for early childhood family education programming.

(40)

(41)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)

- G. Restricted for Gifted and Talented**
Restricted for gifted and talented represents available resources to provide gifted and talented programming in accordance with funding made available for that purpose.
- H. Restricted for Basic Skills**
In accordance with State Statute, this restriction represents available resources dedicated exclusively for meeting the educational needs of pupils who enroll under-prepared for learners of their age.
- I. Restricted for Teacher Development and Evaluation**
Restricted for teacher development and evaluation represents available resources for teacher development and evaluation uses listed in Minnesota Statute, section 122A.40, Subd 8 or section 122A.41, Subd 5.
- J. Restricted for Safe Schools Levy**
Restricted for safe schools levy represents available resources to be used only to provide for safe schools – crime projects.
- K. Restricted for Long Term Facility Maintenance(LTFM)**
The fund balance restriction represents resources to be used for LTFM projects in accordance with the 10-Year Plan.
- L. Restricted for Medical Assistance**
The fund balance restriction represents resources to be used for additional special education activities funded from Medical Assistance revenue.
- M. Restricted for Other Purposes**
Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. In the General Fund, this amount is restricted by a donor to be used for future technology purchases.

NOTE 7 ASSIGNED FUND BALANCES

At June 30, 2019, the District has assigned fund balances for the following purposes:

School Purposes:	\$ 10,377
Wellness	34,721
Q-Comp	41,993
Student Activity Funds	87,091
Total Assigned Fund Balance	\$ 174,182

(42)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 DEFINED BENEFIT PENSION PLANS

- A. Plan Description**
The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA and TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA and TRA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code.
 1. **General Employees Retirement Plan (GERF)**
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 the Coordinated Plan. Coordinated Plan members are covered by Social Security.
 2. **Teachers Retirement Fund (TRA)**
The Teacher's Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.
Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or University of Minnesota System).
- 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. 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. **GERF Benefits**
General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years 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.

(43)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERS Benefits (Continued)
Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.
2. TRA Benefits
TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

Tier I Benefits

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

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% 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

(44)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)
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.

C. Contribution Rate

1. GERF Contributions
Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution 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 \$126,436. The District's contributions were equal to the required contributions for each year as set by state statute.
2. TRA Contributions
Per Minnesota Statutes, Chapter 354 rates for the fiscal year for coordinated were 7.5% for the employee and 7.71% for the employer. Basic rates were 11.00% for the employee and 11.71% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$449,382. The District's contributions were equal to the required contributions for each year as set by state statute.

(45)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. GERF Pension Costs
At June 30, 2019, the District reported a liability of \$1,242,660 for its proportionate share of the General Employees Plan's net pension liability. The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the District totaled \$40,876. 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 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 .0224% which was a decrease of 0.0003% from its proportion measured June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$41,546 for its proportionate share of the GERF's pension expense. It also recognized \$9,532 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 GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 32,891	\$ 36,243
Changes in Actuarial Assumptions	118,706	139,626
Net Difference Between Projected and Actual Earnings on Plan Investments		126,980
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions		21,972
District Contributions Subsequent to the Measurement Date	126,436	-
Total	\$ 278,033	\$ 324,821

(46)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)
Of the resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$126,436 reported as deferred outflows 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 the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 33,463
2021	(75,090)
2022	(105,662)
2023	(25,935)

2. TRA Pension Costs

At June 30, 2019, the District reported a liability of \$6,334,834 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 .1009% at the end of the measurement period and .0986% 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	\$ 6,334,834
State's Proportionate Share of the Net Pension Liability Associated with the District	595,175

(47)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

For the year ended June 30, 2019, the District recognized negative pension expense of \$(2,180,558). It also recognized \$35,893 as pension expense 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:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 67,569	\$ 127,743
Changes in Actuarial Assumptions	8,179,443	10,801,679
Net Difference Between Projected and Actual Earnings on Plan Investments	-	491,261
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	412,433	53,540
District Contributions Subsequent to the Measurement Date	449,382	-
Total	\$ 9,108,827	\$ 11,474,223

Of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date, \$449,382 reported as deferred outflows will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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	\$ 670,591
2021	458,745
2022	56,988
2023	(2,334,419)
2024	(1,666,683)

(48)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Aggregate Pension Costs

At June 30, 2019, the District reported the following aggregate amounts related to pensions for all plans to which it contributes:

	TRA	General	Total
Net Pension Liability	\$ 6,334,834	\$ 1,242,680	\$ 7,577,494
Deferred Outflows of Resources	9,108,827	278,033	9,386,860
Deferred Inflows of Resources	11,474,223	324,821	11,799,044
Pension Expense	(2,144,665)	51,078	(2,093,587)

E. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and dependents were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.0% per year for General Employees Plan through 2044 and 2.5% per year thereafter. Cost of living benefit increases for retirees are assumed to be 2.0% per year for TRA through June 30, 2044, increasing to 2.50% per year on July 1, 2045.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions for General Employees Plan occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested deferred members. The revised CSA loads are now 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.

(49)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions for TRA occurred in 2017:

- 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.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0%, the vested inactive load increased from 4.0% to 7.0% and the nonvested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect changes in the general wage growth assumption.

The long-term expected rate of return on pension plan investments is 7.5% for General Employees Plan and 5.12% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39 %	5.10%
International Equity	19	5.30%
Bonds	20	0.75%
Alternative Assets	20	5.90%
Cash	2	0.00%
Totals	<u>100 %</u>	

(50)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total GERSF pension liability was 7.5%. 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the TRA pension liability was 5.12%. This is no change 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 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was 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:

Description	1% Decrease	Current	1% Increase in
	Discount Rate	Discount Rate	Discount Rate
GERF Discount Rate	6.50%	7.50%	8.50%
District's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 2,019,482	\$ 1,242,660	\$ 601,416
TRA Discount Rate	4.12%	5.12%	6.12%
District's Proportionate Share of the TRA Net Pension Liability	\$ 10,057,530	\$ 6,334,834	\$ 3,268,495

H. Pension Plan Fiduciary Net Position

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

(51)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position (Continued)

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnestotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

NOTE 9 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 \$147,811, \$134,895, and \$106,679, respectively. The related employee contributions were \$231,813, \$224,337, and \$191,988 for the years ended June 30, 2019, 2018, and 2017, respectively.

NOTE 10 FLEXIBLE BENEFIT PLAN

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

Before the beginning of the plan year, which is from July 1 to June 30, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions 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.

(52)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree defined benefit plan (the Plan) that provides health insurance to eligible employees and their spouses. There are 115 active participants and 9 inactive participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Contributions

Contribution requirements are also negotiated between the District and union representatives. The District contributes the cost of current-year premiums for eligible retired Plan members. For fiscal year 2019, the District contributed \$116,716 to the Plan.

C. Total OPEB Liability

The District's total OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined 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	N/A

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.40%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

D. Changes in the Total OPEB Liability

	Total OPEB Liability
Balances at June 30, 2018	\$ 488,852
Service Cost	28,189
Interest	16,426
Benefit Payments	(68,404)
Net Changes	(23,789)
Balances at June 30, 2019	\$ 465,063

(53)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. OPEB Liability Sensitivity

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

	1% Decrease 2.40 %	Discount Rate 3.40 %	1% Increase 4.40 %
Total OPEB Liability	\$ 489,349	\$ 465,063	\$ 441,745

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

	Healthcare Cost Trend Rates	1% Increase (7.25%)
Total OPEB Liability	\$ 422,532	\$ 515,228

F. OPEB Expense

For the year ended June 30, 2019, the District recognized OPEB expense of \$44,615. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District Contributions Subsequent to the Measurement Date	\$ 101,898	\$ -
Total	\$ 101,898	\$ -

District contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

NOTE 12 JOINTLY GOVERNED ORGANIZATION

The Goodhue County Education District No. 61-6051 was established by an act of the 1987 legislature of the state of Minnesota. The primary objective of the District is to provide, by a cooperative effort, comprehensive educational programs and other related services as can be effectively operated by its five member districts. Each member shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements, and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources. The jointly governed organization's financial statements are audited and available for inspection.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Federal and State Receivables

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

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2019**

	2019	2018
Total OPEB Liability		
Service Cost	\$ 28,189	\$ 27,368
Interest	16,426	18,009
Benefit Payments	(68,404)	(116,716)
Net Change in Total OPEB Liability	(23,789)	(71,339)
Total OPEB Liability - Beginning	488,852	560,191
Total OPEB Liability - Ending	\$ 465,063	\$ 488,852
Covered Employee Payroll	\$ 6,199,935	\$ 6,019,354
District's Total OPEB liability as a Percentage of the Covered Employee Payroll	7.50%	8.12%

Note 1: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Note 2: No assets are accumulated in a trust.

REQUIRED SUPPLEMENTARY INFORMATION

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST FIVE FISCAL YEARS**

	2019	2018	2017	2016	2015
PERA - General Employees Plan					
Statutorily Required Contribution	\$ 126,436	\$ 112,792	\$ 109,723	\$ 105,645	\$ 99,899
Contributions in Relation to the Statutorily Required Contribution	<u>(126,436)</u>	<u>(112,792)</u>	<u>(109,723)</u>	<u>(105,645)</u>	<u>(99,899)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 1,685,812	\$ 1,503,891	\$ 1,462,971	\$ 1,408,603	\$ 1,352,048
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.38%
TRA					
Statutorily Required Contribution	\$ 449,382	\$ 423,188	\$ 401,856	\$ 375,237	\$ 365,966
Contributions in Relation to the Statutorily Required Contribution	<u>(449,382)</u>	<u>(423,188)</u>	<u>(401,856)</u>	<u>(375,237)</u>	<u>(365,966)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 5,806,300	\$ 5,619,946	\$ 5,358,067	\$ 5,003,158	\$ 4,879,545
Contributions as a Percentage of Covered Payroll	7.74%	7.53%	7.50%	7.50%	7.50%

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

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST FIVE YEARS**

Measurement Date	2019	2018	2017	2016	2015
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
PERA - General Employees Plan					
District's Proportion of the Net Pension Liability	0.0224%	0.0227%	0.0229%	0.0230%	0.0240%
District's Proportionate Share of the Net Pension Liability	\$ 1,242,660	\$ 1,449,153	\$ 1,859,366	\$ 1,191,979	\$ 1,127,400
State's Proportionate Share of the Net Pension Liability	40,876	18,206	24,285	-	-
Associated with District	<u>\$ 1,283,536</u>	<u>\$ 1,467,359</u>	<u>\$ 1,883,651</u>	<u>\$ 1,191,979</u>	<u>\$ 1,127,400</u>
District's Covered Payroll	\$ 1,503,891	\$ 1,462,971	\$ 1,408,603	\$ 1,352,048	\$ 1,260,914
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	85.35%	100.30%	133.72%	88.16%	89.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.90%	78.20%	78.70%
TRA					
District's Proportion of the Net Pension Liability	0.1009%	0.0986%	0.0955%	0.0961%	0.1006%
District's Proportionate Share of the Net Pension Liability	\$ 6,334,834	\$ 19,682,349	\$ 22,779,029	\$ 5,944,735	\$ 4,635,576
State's Proportionate Share of the Net Pension Liability	595,175	1,902,078	2,286,731	729,262	326,176
Associated with District	<u>\$ 6,930,009</u>	<u>\$ 21,584,427</u>	<u>\$ 25,065,760</u>	<u>\$ 6,673,997</u>	<u>\$ 4,961,752</u>
District's Covered Payroll	\$ 5,619,946	\$ 5,358,067	\$ 5,003,158	\$ 4,879,545	\$ 4,593,443
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	112.72%	367.34%	455.29%	121.83%	100.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	51.57%	44.88%	76.80%	81.50%

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



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

OTHER REQUIRED REPORTS

Board of Education
Independent School District No. 2805
Mazeppa, 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. 2805, 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. 2805's basic financial statements, and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 2805's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 2805's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 2805'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 identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a material weakness.



(59)

Board of Education
Independent School District No. 2805

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 2805's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent School District No. 2805's Response to Finding

Independent School District No. 2805's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Independent School District No. 2805'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
October 10, 2019

(60)



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**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

Board of Education
Independent School District No. 2805
Mazeppa, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2805, as of and for the year ended June 30, 2019, and the related notes to the financial statements and have issued our report thereon dated October 10, 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. 2805 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 2805'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 communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Rochester, Minnesota
October 10, 2019



(61)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2019

FINDING: 2019-001

ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition:

The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by accounting principles generally accepted in the United States of America are included in the annual financial statements. The potential exists that a material disclosure could be omitted from the annual financial statements and not be prevented, or detected and corrected, by the District's internal controls.

Criteria:

The District should have controls in place to prevent, or detect and correct, an omission of a material disclosure in the annual financial statements.

Effect:

The potential exists that a material disclosure could be omitted from the financial statements and not be prevented, or detected and corrected, by the District's internal controls.

Cause:

The District does not have the expertise to draft the notes to the financial statements; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

Recommendation:

We recommend that the District continue to evaluate their internal staff, and expertise to determine if further controls over annual financial reporting are beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Coordinator of Fiscal Services receives a draft of the financial statements as prepared by the audit firm. She reviews all pages and compares all data to reports pulled from the Smart Finance system to verify the accuracy of any financial information reported. This involves comparison of revenue, expenditures, and all balance sheet data. However, the District will continue to engage the audit firm for completeness of the disclosures. The Coordinator of Fiscal Services will review the disclosures for accuracy, compare balances to UFARS and other District reports, and discuss any discrepancies with the audit firm with satisfactory resolution for both parties prior to authorizing final drafting of the financial statements.

Official Responsible for Ensuring CAP:

Diane Matthees, Coordinator of Fiscal Services, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Planned completion date is June 30, 2020.

Plan to Monitor Completion of CAP:

The Zumbrota-Mazeppa Board of Education will be monitoring this corrective action plan.

GENERAL FUND	AUDIT	UFARS	DIFFERENCE	BUILDING CONSTRUCTION	AUDIT	UFARS	DIFFERENCE
Total Expenditures	\$ 14,890,226	\$ 14,890,216	\$ 10	Total Expenditures	\$ 12,033,788	\$ 12,033,777	\$ 11
Nonspendable				Nonspendable			
460 Nonspendable Fund Balance	\$ 294,550	\$ 294,550	\$ -	460 Nonspendable Fund Balance			
Reassigned				Reassigned			
405 Capital Project Levy	\$ 87,650	\$ 87,650	\$ -	405 Capital Project Levy			
405 Deferred Maintenance	\$ -	\$ -	\$ -	405 Deferred Maintenance			
408 Health and Safety	\$ -	\$ -	\$ -	408 Health and Safety			
407 Capital Project Levy	\$ -	\$ -	\$ -	407 Capital Project Levy			
405 Alternative Family Program	\$ -	\$ -	\$ -	405 Alternative Family Program			
404 Restored Fund Balance	\$ -	\$ -	\$ -	404 Restored Fund Balance			
Unassigned				Unassigned			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -	463 Unassigned Fund Balance			
07 DEBT SERVICE				07 DEBT SERVICE			
417 Income-Building Maintenance	\$ -	\$ -	\$ -	417 Income-Building Maintenance	\$ 1,054,589	\$ 1,055,000	\$ (411)
417 Income-Building Maintenance	\$ -	\$ -	\$ -	417 Income-Building Maintenance	\$ 283,220	\$ 283,220	\$ -
425 50% of Capital	\$ 187,789	\$ 187,789	\$ -	425 50% of Capital	\$ -	\$ -	\$ -
425 50% of Capital	\$ -	\$ -	\$ -	425 50% of Capital	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	427 Disabled Accessibility	\$ -	\$ -	\$ -
428 Learning and Development	\$ 2,342	\$ 2,342	\$ -	428 Learning and Development	\$ -	\$ -	\$ -
434 Adult Learning Center	\$ -	\$ -	\$ -	434 Adult Learning Center	\$ -	\$ -	\$ -
438 State-Approved Alternative Programs	\$ -	\$ -	\$ -	438 State-Approved Alternative Programs	\$ -	\$ -	\$ -
438 Other and Untracked	\$ 676	\$ 676	\$ -	438 Other and Untracked	\$ 286,017	\$ 286,017	\$ -
440 Teacher Development and Evaluations	\$ 6,077	\$ 6,077	\$ -	440 Teacher Development and Evaluations	\$ -	\$ -	\$ -
441 Basic Skills Program	\$ 1,536	\$ 1,536	\$ -	441 Basic Skills Program	\$ -	\$ -	\$ -
442 Career Development Programs	\$ -	\$ -	\$ -	442 Career Development Programs	\$ -	\$ -	\$ -
448 Achievement and Recognition	\$ 23,137	\$ 23,137	\$ -	448 Achievement and Recognition	\$ -	\$ -	\$ -
449 Skills Schools Credit Levy	\$ -	\$ -	\$ -	449 Skills Schools Credit Levy	\$ -	\$ -	\$ -
451 OZBA Payments	\$ -	\$ -	\$ -	451 OZBA Payments	\$ -	\$ -	\$ -
452 OPEB Liability/Not Held in Trust	\$ 376,381	\$ 376,381	\$ -	452 OPEB Liability/Not Held in Trust	\$ 3,904	\$ 3,904	\$ -
452 OPEB Liability/Not Held in Trust	\$ -	\$ -	\$ -	452 OPEB Liability/Not Held in Trust	\$ 5,500	\$ 5,500	\$ -
457 LTFR	\$ -	\$ -	\$ -	457 LTFR	\$ -	\$ -	\$ -
457 LTFR	\$ -	\$ -	\$ -	457 LTFR	\$ -	\$ -	\$ -
472 Medical Assistance	\$ 6,070	\$ 6,070	\$ -	472 Medical Assistance	\$ -	\$ -	\$ -
Reassigned				Reassigned			
464 Restored Fund Balance	\$ 8,346	\$ 8,346	\$ -	464 Restored Fund Balance	\$ -	\$ -	\$ -
418 Committed for Separation	\$ 140,000	\$ 140,000	\$ -	418 Committed for Separation	\$ -	\$ -	\$ -
461 Committed Fund Balance	\$ 1,070,000	\$ 1,070,000	\$ -	461 Committed Fund Balance	\$ -	\$ -	\$ -
Unassigned				Unassigned			
462 Assigned Fund Balance	\$ 87,041	\$ 87,041	\$ -	462 Assigned Fund Balance	\$ -	\$ -	\$ -
462 Assigned Fund Balance	\$ -	\$ -	\$ -	462 Assigned Fund Balance	\$ -	\$ -	\$ -
422 Unassigned Fund Balance	\$ 13,783,029	\$ 13,783,028	\$ 1	422 Unassigned Fund Balance	\$ -	\$ -	\$ -
20 FOOD SERVICE				20 FOOD SERVICE			
Total Expenditures	\$ 658,668	\$ 658,664	\$ 4	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable	\$ 590,825	\$ 590,825	\$ -	Nonspendable	\$ -	\$ -	\$ -
460 Nonspendable Fund Balance	\$ -	\$ -	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
Reassigned				Reassigned			
464 Restored Fund Balance	\$ 13,851	\$ 13,852	\$ (1)	464 Restored Fund Balance	\$ -	\$ -	\$ -
Unassigned				Unassigned			
463 Unassigned Fund Balance	\$ 43,330	\$ 43,330	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
24 COMMUNITY SERVICE				24 COMMUNITY SERVICE			
Total Revenue	\$ 1,089,916	\$ 1,089,919	\$ (3)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 1,07,087	\$ 1,07,087	\$ 0	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable				Nonspendable			
460 Nonspendable Fund Balance	\$ -	\$ -	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
Reassigned				Reassigned			
425 50% of Capital	\$ 335,203	\$ 335,203	\$ -	425 50% of Capital	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ 2,627	\$ 2,627	\$ -	432 E.C.F.E.	\$ -	\$ -	\$ -
444 Teacher Development and Evaluations	\$ 1,533,874	\$ 1,533,874	\$ -	444 Teacher Development and Evaluations	\$ -	\$ -	\$ -
447 Adult Basic Education	\$ -	\$ -	\$ -	447 Adult Basic Education	\$ -	\$ -	\$ -
452 OPEB Liability/Not Held in Trust	\$ 31,679	\$ 31,679	\$ -	452 OPEB Liability/Not Held in Trust	\$ -	\$ -	\$ -
464 Restored Fund Balance	\$ -	\$ -	\$ -	464 Restored Fund Balance	\$ -	\$ -	\$ -
Unassigned				Unassigned			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -



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STUDENT ACTIVITY FUNDS

INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2805
Mazeppa, 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. 2805 as of and for the year ended June 30, 2019, and the related note to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial 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 statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



(64)

Board of Education
Independent School District No. 2805

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS – HIGH SCHOOL
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
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. 2805 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 statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial 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. 2805 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 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. 2805 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

Rochester, Minnesota
October 10, 2019

Funds	Balance 6/30/2018	Transfer and Receipts	Disbursements	Balance 6/30/2019
National Honor Society	\$ 266	\$ 915	\$ 659	\$ 522
Class of 2017	-	-	-	-
Class of 2018	-	-	-	-
Class of 2019	100	7,764	7,864	-
Band-Sr High	5,244	-	535	4,709
Baseball	-	3,300	3,290	10
Cheerleading	864	-	864	-
Close Up	15,412	36,286	36,270	15,428
FFA	8,484	28,295	33,196	3,583
SADD Chapter	1,782	-	-	1,782
FCCLA	378	5,258	5,003	633
Student Council-Middle	3,126	-	104	3,022
Student Council-Sr High	3,738	11,206	6,680	8,264
Vocal	6,516	38,438	37,637	7,317
Total	\$ 45,910	\$ 131,462	\$ 132,102	\$ 45,270

See accompanying Note to Student Activity Fund Financial Statements.
(66)

(65)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STUDENT ACTIVITY FUNDS
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS
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.



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

Board of Education
Independent School District No. 2805
Mazeppa, 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. 2805 as of and for the year ended June 30, 2019, and the related note to the financial statement, which collectively comprises the basic financial statement, and have issued our report thereon dated October 10, 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.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Manual for Activity Fund Accounting* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Rochester, Minnesota
October 10, 2019



(67)

(68)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805**

**FINANCIAL STATEMENT AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2019

INTRODUCTORY SECTION		
BOARD OF EDUCATION AND ADMINISTRATION	1	
FINANCIAL SECTION		
INDEPENDENT AUDITORS' REPORT	2	56
REQUIRED SUPPLEMENTARY INFORMATION		
MANAGEMENT'S DISCUSSION AND ANALYSIS	5	
BASIC FINANCIAL STATEMENTS		
STATEMENT OF NET POSITION	15	
STATEMENT OF ACTIVITIES	16	
BALANCE SHEET – GOVERNMENTAL FUNDS	18	
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	20	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	21	
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	23	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	24	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – FOOD SERVICE FUND	25	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	26	
STATEMENT OF FIDUCIARY NET POSITION	27	
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	27	
NOTES TO FINANCIAL STATEMENTS	28	
REQUIRED SUPPLEMENTARY INFORMATION		
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS		56
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		57
SCHEDULE OF DISTRICT CONTRIBUTIONS		58
OTHER REQUIRED REPORTS		
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		59
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE		61
SCHEDULE OF FINDINGS AND RESPONSES		62
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE		63
STUDENT ACTIVITY FUNDS		
INDEPENDENT AUDITORS' REPORT		64
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS – HIGH SCHOOL EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS		66
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS		67
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE MANUAL FOR ACTIVITY FUND ACCOUNTING		68

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2019

<p>Jean Roth</p> <p>Jason Lohmann</p> <p>James Wendt</p> <p>Angie Bredehoff</p> <p>Amanda Peters</p> <p>Stephanie Miller</p> <p>Michael Harvey</p>	<p>Chairperson</p> <p>Vice-Chairperson</p> <p>Treasurer</p> <p>Clerk</p> <p>Director</p> <p>Director</p> <p style="text-align: center;">ADMINISTRATION</p> <p>Superintendent of Schools</p>
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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2805
Mazeppa, 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. 2805 (the District) 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. 2805 as of June 30, 2019, and the respective changes in financial position and budgetary comparison for General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Independent School District No. 2805'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 October 11, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the District's Total OPEB Liability and Related Ratios, 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

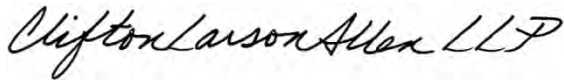
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 2805's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Uniform Financial Accounting and Reporting Standards Compliance Table is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019, on our consideration of Independent School District No. 2805's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Independent School District No. 2805'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. 2805's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Rochester, Minnesota
October 10, 2019

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

This section of Zumbrota-Mazeppa Public Schools – Independent School District 2805'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.

FINANCIAL HIGHLIGHTS

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

- The unassigned general fund balance used for instructional purposes, business operations and maintenance decreased from \$2,200,970 to \$1,376,929.
- The food service fund balance increased from \$40,618 to \$57,261.
- The community service fund balance decreased from \$253,374 to \$216,209.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *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 outflows 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.

(5)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The two district-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets and deferred outflows 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 is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used 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.

(6)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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 was \$(3,954,742) on June 30, 2019. (See Table A-1).

Table A-1
The District's Net Position

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 9,644,964	\$ 8,717,154	10.64 %
Capital Assets	12,268,242	12,865,149	(4.64)
Total Assets	21,913,206	21,582,303	1.53
Deferred Outflows of Resources	9,519,697	12,011,383	(20.74)
Current Liabilities	2,830,372	2,731,858	3.61
Long-Term Liabilities	17,010,058	31,712,980	(46.36)
Total Liabilities	19,840,430	34,444,838	(42.40)
Deferred Inflows of Resources	15,547,215	7,148,336	117.49
Net Position:			
Net Investment in Capital Assets	2,231,033	1,729,544	29.00
Restricted	1,384,682	1,159,889	19.38
Unrestricted	(7,570,457)	(10,888,921)	(30.48)
Total Net Position	\$ (3,954,742)	\$ (7,999,488)	(50.56)

(7)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$17,648,022 for the year ended June 30, 2019. Property taxes and state formula aid accounted for 72% of total revenue for the year. (See Figure A-1.) Another 1 % came from other general revenues combined with investment earnings and the remainder from program revenues.

Table A-2
Change in Net Position

	Governmental Activities for the		Percentage Change
	Fiscal Year Ended June 30, 2019	2018	
Revenues			
Program Revenues	\$ 1,720,653	\$ 2,103,817	(18.21)%
Charges for Services	2,793,005	2,604,319	7.25
Operating Grants and Contributions	249,689	215,637	15.79
Capital Grants and Contributions	3,752,138	3,178,736	18.04
Property Taxes	9,013,865	8,874,127	1.57
Unrestricted State Aid	63,355	53,831	17.69
Investment Earnings	55,317	129,985	(57.44)
Other	17,648,022	17,160,452	2.84
Total Revenues			
Expenses			
Administration	619,984	935,878	(33.75)
District Support Services	360,733	319,762	12.81
Regular Instruction	5,241,774	8,476,113	(38.16)
Vocational Education Instruction	343,855	709,676	(51.55)
Special Education Instruction	2,187,854	2,738,452	(20.11)
Instructional Support Services	639,120	1,242,796	(48.57)
Pupil Support Services	1,042,557	1,157,331	(9.92)
Sites and Buildings	1,252,706	1,124,910	11.36
Fiscal and Other Fixed Cost Programs	56,079	54,518	2.86
Food Service	592,322	574,249	3.15
Community Service	1,026,768	1,121,557	(8.45)
Interest and Fiscal Charges on			
Long-Term Liabilities	239,524	477,429	(49.83)
Total Expenses	13,603,276	18,932,671	(28.15)
Change in Net Position	4,044,746	(1,772,219)	
Beginning Net Position, as Previously Stated	(7,999,488)	(5,549,377)	
Restatement	-	(677,892)	
Beginning Net Position, as Restated	(7,999,488)	(6,227,269)	
Ending Net Position	\$ (3,954,742)	\$ (7,999,488)	

The total cost of all programs and services excluding interest and fiscal charges was \$13,363,752. Total revenues exceeded expenses by \$4,044,746. The net position had a year-end balance of \$(3,954,742).

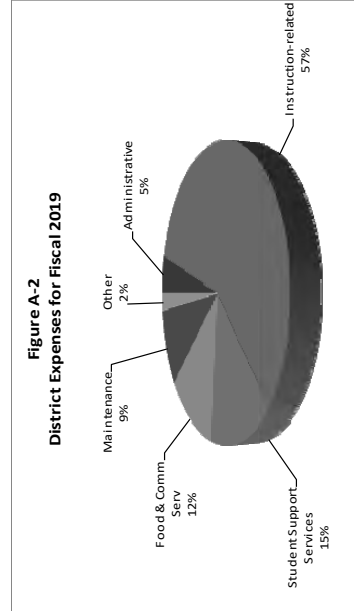
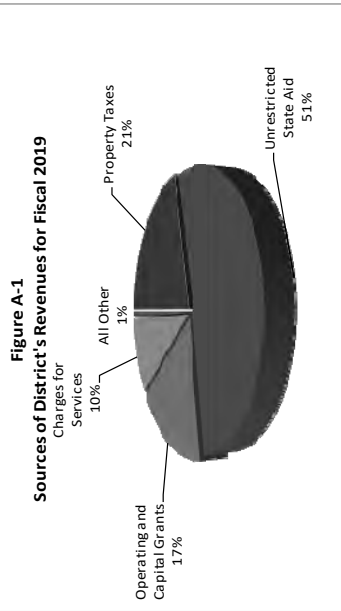
(8)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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 this year was \$13,603,276.

- Some of the cost was paid by the users of the District's programs (\$1,720,653).
- The federal and state governments subsidized certain programs with grants and contributions (\$3,042,694).
- Most of the District's costs (\$12,884,675), however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$3,752,138 in property taxes, \$9,013,865 of state aid and with investment earnings and other general revenues.



(9)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Typically, the District does not include in an analysis of all governmental funds a breakout of expenditures as depicted in Figure A-2. To do so distorts the latitude available to the District to allocate resources to instruction. All governmental funds include not only funds received for the general operation of the District, which are used for classroom instruction, but also includes resources from the entrepreneurial-type funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction. The above graph, by pooling all expenditures, implies that the District does have equal access to all funds to impact classroom instruction. In Minnesota, that is simply not an option. Therefore, a more accurate analysis of resources allocated to instruction should be limited to an analysis of resources received for the general operation of the District and that analysis would show that 70% of those resources are spent on instruction.

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	\$ 619,984	\$ 935,878	\$ 603,733	\$ 916,269	-34.11%
District Support Services	360,733	319,782	270,739	269,017	0.64%
Regular Instruction	5,241,774	8,476,113	4,298,501	7,473,297	-42.48%
Vocational Education Instruction	343,655	709,676	91,862	39,901	130.22%
Special Education Instruction	2,187,854	2,738,452	745,443	1,475,246	-49.47%
Instructional Support Services	639,120	1,242,796	236,139	846,639	-72.07%
Pupil Support Services	1,042,557	1,157,331	1,021,467	1,141,837	-10.54%
Sites and Buildings	1,252,706	1,124,910	1,193,951	1,120,601	6.55%
Food Service	86,079	54,518	86,079	54,518	2.86%
Fiscal and Other Fixed Cost Programs	582,322	974,249	(18,123)	(8,904)	103.34%
Community Service	1,026,766	1,121,557	132,564	235,236	-43.66%
Interest and Fiscal Charges on Long-Term Liabilities	239,524	477,429	207,274	445,179	-53.44%
	<u>\$ 13,603,276</u>	<u>\$ 18,932,671</u>	<u>\$ 6,839,526</u>	<u>\$ 14,093,896</u>	-26.15%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$4,285,384, \$769,165 more than last year's ending fund balance of \$3,516,219.

Revenues for the District's governmental funds were \$17,586,580 while total expenditures were \$16,864,172.

GENERAL FUND

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12 including pupil transportation activities and capital outlay projects.

(10)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

Approximately 90% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local Board of Education having no meaningful authority to determine the level of resources. This includes special education state aid that is based, in part, upon a cost reimbursement model providing approximately 68% of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

ENROLLMENT

Enrollment is a critical factor in determining revenue with approximately 90% of General Fund revenue being determined by enrollment. The following chart shows that the number of students has increased over the last five years.

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

Grade	2015	2016	2017	2018	2019
Kdgt.	99	113	97	112	89
1-3	278	269	286	274	289
4-6	267	275	283	291	283
7-12	495	508	524	537	544
Total K-12 ADM	1,139	1,165	1,190	1,214	1,205
ADM Change	34	26	25	24	(9)
Percent Change	3.0%	2.2%	2.1%	2.0%	-0.7%

Over the last five years the District has experienced an increase in average daily membership by 100 students or 9.0%. It is anticipated that the kindergarten and pre-school population will remain steady the next 2-3 years averaging approximately 95-100 per class as compared to approximately 85 students graduating annually.

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	Year Ended			Change
	June 30, 2019	June 30, 2018	Increase (Decrease)	
Local Sources:				
Property Taxes	\$ 2,879,265	\$ 2,150,109	\$ 729,156	33.9 %
Earnings on Investments	74,888	30,634	44,254	144.5
Other	625,227	1,123,986	(498,759)	(44.4)
State Sources	11,105,217	10,926,842	178,375	1.6
Federal Sources	170,372	163,369	7,003	4.3
Total General Fund Revenue	\$ 14,854,969	\$ 14,394,940	\$ 460,029	3.2

(11)

GENERAL FUND (CONTINUED)

Total General Fund Revenue increased by \$460,029 or 3.2% over the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2019	June 30, 2018		
Salaries	\$ 7,337,830	\$ 6,947,245	\$ 390,585	5.6%
Employee Benefits	2,050,811	1,926,211	124,600	6.5%
Purchased Services	3,319,776	3,088,711	231,065	7.5%
Supplies and Materials	558,058	648,102	(90,044)	-13.9%
Capital Expenditures	458,702	389,892	68,810	17.6%
Other Expenditures	478,611	439,070	39,541	9.0%
Total Expenditures	\$ 14,203,788	\$ 13,439,231	\$ 764,557	5.7%

Total General Fund Expenditures increased \$764,557 or 5.7% from the previous year. The main increases were in capital expenditures of 17.6% and salaries and benefits of 5.8% over the previous year.

General Fund Budgetary Highlights

The District projects a budget in the spring for the next school year and adopts a budget in the summer. The budget change is resultant from some of the following factors:

- Enrollment changes
- Changes in special education funding due to the timing of the formulas
- Expenditure adjustments due to contract changes and unanticipated costs

The actual general fund expenditures were \$155,511 over budget and revenues were \$28,823 less than anticipated.

This fund includes long-term facilities maintenance, capital, and operating functions. Long-term facilities maintenance projects resulted in an increase of \$204,197 to the general fund balance and operating capital functions resulted in a decrease of \$94,127 to the general fund balance.

(12)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

The general fund expenditures were \$155,511 more than budgeted. The difference amounted to about 1.1% of an expenditure budget that was just over \$14.0 million. There were expenditure categories that were over-budget such as instruction, pupil support and capital outlay. These were offset, in part, by \$101,570 for sites and buildings and \$145,760 for vocational education instruction.

DEBT SERVICE FUNDS

The Debt Service Fund balance increased \$91,749. The fund balance of \$286,071 at June 30, 2019 is available for meeting future debt service obligations.

OTHER MAJOR FUNDS

The Community Service Fund balance decreased by \$37,165. This was \$8,204 more than anticipated.

The Food Service Fund balance increased by \$16,643. This was \$10,785 more of an increase than the \$5,858 increase that was anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2019, the District had invested over \$12.2 million in a broad range of capital assets, net of accumulated depreciation including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Table A-7.) (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year exceeded \$820,000.

**Table A-7
Capital Assets**

	2019	2018	Percentage Change
Land	\$ 92,949	\$ 92,949	-
Construction in Progress	-	-	N/A
Land Improvements	757,313	757,313	-
Buildings and Improvements	23,054,322	22,983,453	0.3
Equipment	2,448,393	2,389,820	2.5
Less: Accumulated Depreciation	(14,084,735)	(13,368,386)	5.4
Total District Capital Assets	<u>\$ 12,268,242</u>	<u>\$ 12,865,149</u>	(4.6)

(13)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had \$8,745,000 in general obligation bonds outstanding – a decrease of 8.9% under last year – and \$1,108,557 in capital leases payable – a decrease of 17.1% under last year – as shown in Note 5 to Financial Statements.

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

	2019	2018	Percentage Change
General Obligation Bonds	\$ 8,745,000	\$ 9,595,000	(8.9)%
Net Bond Premium and Discount	214,591	238,583	(10.1)
Capital Leases Payable	1,108,557	1,336,602	(17.1)
Compensated Absences Payable	49,670	44,414	11.8
Total Long-Term Liabilities	<u>\$ 10,117,818</u>	<u>\$ 11,214,599</u>	(9.8)
Long-Term Liabilities:			
Due Within One Year	\$ 1,150,317	\$ 1,121,973	
Due in More Than One Year	<u>8,967,501</u>	<u>10,092,626</u>	
Total	<u>\$ 10,117,818</u>	<u>\$ 11,214,599</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District passed an operating levy referendum in 2017 increasing the amount of revenue per student from \$950 to \$1,250, which has an inflationary factor that started in 2018-2019.

The financial goal of the District is to avoid going into statutory operating debt and to maintain fund balances which allow it to serve students in the best way possible throughout the 10 years of the current levy authority and beyond.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office, Independent School District 2805, 343 Third Avenue NE, Mazeppa, Minnesota 55956.

(14)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF NET POSITION
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Governmental Activities	
	2019	2018
ASSETS		
Cash and Investments	\$ 6,211,422	\$ 5,815,886
Receivables:		
Property Taxes	1,933,816	1,847,844
Other Governments	1,170,770	884,037
Other	20,475	17,599
Prepaid Items	3,594	12,936
Inventories	13,931	21,030
Land Held for Resale	290,956	117,822
Capital Assets:		
Land and Construction in Progress	92,949	92,949
Other Capital Assets, Net of Depreciation	12,175,293	12,772,200
Total Assets	<u>21,913,206</u>	<u>21,582,303</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	9,386,860	11,908,399
Other Postemployment Benefits Related	101,898	68,404
Deferred Amount on Bond Refunding	30,939	34,580
Total Deferred Outflows of Resources	<u>9,519,697</u>	<u>12,011,383</u>
LIABILITIES		
Salaries Payable	1,334,190	1,276,574
Accounts and Contracts Payable	155,228	158,968
Accrued Interest	93,171	102,840
Due to Other Governmental Units	55,816	24,709
Unearned Revenue	41,650	46,794
Long-Term Liabilities:		
Portion Due Within One Year	1,150,317	1,121,973
Portion Due in More Than One Year	8,967,501	10,092,626
Net Pension Liability	7,577,494	21,131,502
Other Postemployment Benefits Liability (Asset)	465,063	488,852
Total Liabilities	<u>19,840,430</u>	<u>34,444,838</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	3,748,171	3,674,518
Deferred Inflows - Pensions	11,799,044	3,473,818
Total Deferred Inflows of Resources	<u>15,547,215</u>	<u>7,148,336</u>
NET POSITION		
Net Investment in Capital Assets	2,231,033	1,729,544
Restricted for:		
General Fund Operating Capital Purposes	187,769	281,896
General Fund State-Mandated Reserves	561,156	347,011
Technology	8,348	11,874
Food Service	57,261	40,618
Community Service	371,293	381,690
Debt Service	198,855	96,800
Unrestricted	(7,570,457)	(10,888,921)
Total Net Position	<u>\$ (3,954,742)</u>	<u>\$ (7,999,488)</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

Functions	2019		
	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	\$ 619,984	\$ -	\$ 16,251
District Support Services	360,733	-	-
Regular Instruction	5,241,774	167,380	666,121
Vocational Education Instruction	343,855	238,792	13,201
Special Education Instruction	2,187,854	125,609	1,316,802
Instructional Support Services	639,120	32,335	370,346
Pupil Support Services	1,042,557	-	21,090
Sites and Buildings	1,252,706	8,832	-
Fiscal and Other Fixed Cost Programs	56,079	-	-
Food Service	592,322	353,842	256,603
Community Service	1,026,768	793,863	100,341
Interest and Fiscal Charges on Long-Term Liabilities	239,524	-	32,250
Total School District	\$ 13,603,276	\$ 1,720,653	\$ 2,793,005

General Revenues

Property Taxes Levied for:
 General Purposes
 Community Service
 Debt Service
 State Aid Not Restricted to Specific Purposes
 Earnings on Investments
 Miscellaneous
 Gain on Sale of Capital Assets
 Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

2019		2018	
Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position Total Governmental Activities	Net (Expense) Revenue and Change in Net Position Total Governmental Activities	Net (Expense) Revenue and Change in Net Position Total Governmental Activities
\$ -	\$ (603,733)	\$ (916,269)	\$ (916,269)
89,994	(270,739)	(269,017)	(269,017)
109,772	(4,298,501)	(7,473,297)	(7,473,297)
-	(91,862)	(39,901)	(39,901)
-	(745,443)	(1,475,246)	(1,475,246)
-	(236,439)	(846,639)	(846,639)
-	(1,021,467)	(1,141,837)	(1,141,837)
49,923	(1,193,951)	(1,120,601)	(1,120,601)
-	(56,079)	(54,518)	(54,518)
-	18,123	8,904	8,904
-	(132,564)	(235,298)	(235,298)
-	(207,274)	(445,179)	(445,179)
<u>\$ 249,689</u>	<u>(8,839,929)</u>	<u>(14,008,898)</u>	<u>(14,008,898)</u>
	2,883,755	2,144,162	2,144,162
	160,213	180,460	180,460
	708,170	854,114	854,114
	9,013,865	8,874,127	8,874,127
	63,355	53,831	53,831
	55,317	129,559	129,559
	-	426	426
	<u>12,884,675</u>	<u>12,236,679</u>	<u>12,236,679</u>
	4,044,746	(1,772,219)	(1,772,219)
	<u>(7,999,488)</u>	<u>(6,227,269)</u>	<u>(6,227,269)</u>
	<u>\$ (3,954,742)</u>	<u>\$ (7,999,488)</u>	<u>\$ (7,999,488)</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 5,083,756	\$ 58,187	\$ 424,742
Receivables:			
Current Property Taxes	1,335,918	-	103,251
Delinquent Property Taxes	17,361	-	1,209
Accounts and Interest Receivable	6,278	485	13,712
Due from Other Minnesota School Districts	78,455	-	-
Due from Minnesota Department of Education	1,005,742	-	5,483
Due from Federal through Minnesota Department of Education	30,113	16,978	-
Due from Other Governmental Units	-	-	-
Inventory	-	13,931	-
Land Held for Resale	290,956	-	-
Prepays	3,594	-	-
Total Assets	<u>\$ 7,852,173</u>	<u>\$ 89,581</u>	<u>\$ 548,397</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities:			
Salaries and Compensated Absences Payable	\$ 967,009	\$ 500	\$ 71,806
Payroll Deductions and Employer Contributions Payable	283,636	-	11,239
Accounts and Contracts Payable	131,757	17,399	6,072
Due to Other Governmental Units	58,314	36	(2,534)
Unearned Revenue	-	14,385	27,265
Total Liabilities	<u>1,440,716</u>	<u>32,320</u>	<u>113,848</u>
Deferred Inflows of Resources:			
Unavailable Revenue - Property Taxes Levied for Subsequent Year	2,668,253	-	217,131
Unavailable Revenue - Delinquent Property Taxes	17,361	-	1,209
Total Deferred Inflows of Resources	<u>2,685,614</u>	<u>-</u>	<u>218,340</u>
Fund Balance:			
Nonspendable:			
Inventory	-	13,931	-
Land Held for Resale	290,956	-	-
Prepays	3,594	-	-
Restricted for:			
Staff Development	87,950	-	-
Health and Safety	-	-	-
Operating Capital	187,769	-	-
Learning and Development	2,342	-	-
Community Education	-	-	335,803
Early Childhood and Family Education	-	-	2,602
Gifted and Talented	676	-	-
Teacher Development and Evaluation	8,070	-	-
Basic Skills Programs	1,536	-	-
Safe Schools Levy	23,131	-	-
LTFM	376,381	-	-
Medical Assistance	61,070	-	-
Restricted for Other Purposes	8,348	43,330	31,679
Committed for:			
Retirement Benefits	140,000	-	-
Vehicle Replacement	170,000	-	-
Roof Repairs	400,000	-	-
Land Purchase	500,000	-	-
Assigned for:			
School Purposes	45,098	-	-
Student Activities	41,993	-	-
Unassigned	1,376,929	-	(153,875)
Total Fund Balance	<u>3,725,843</u>	<u>57,261</u>	<u>216,209</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 7,852,173</u>	<u>\$ 89,581</u>	<u>\$ 548,397</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

Debt Service	Total Governmental Funds	
	2019	2018
\$ 644,737	\$ 6,211,422	\$ 5,815,886
470,122	1,909,291	1,828,472
5,955	24,525	19,372
-	20,475	17,599
-	78,455	77,040
33,999	1,045,224	775,067
-	47,091	30,681
-	-	1,249
-	13,931	21,030
-	290,956	117,822
-	3,594	12,936
<u>\$ 1,154,813</u>	<u>\$ 9,644,964</u>	<u>\$ 8,717,154</u>
\$ -	\$ 1,039,315	\$ 1,001,939
-	294,875	274,635
-	155,228	158,968
-	55,816	24,709
-	41,650	46,794
-	<u>1,586,884</u>	<u>1,507,045</u>
862,787	3,748,171	3,674,518
5,955	24,525	19,372
<u>868,742</u>	<u>3,772,696</u>	<u>3,693,890</u>
-	13,931	21,030
-	290,956	117,822
-	3,594	12,936
-	87,950	72,280
-	-	4,093
-	187,769	281,896
-	2,342	3,914
-	335,803	349,414
-	2,602	3,665
-	676	5,552
-	8,070	9,323
-	1,536	-
-	23,131	23,113
-	376,381	172,184
-	61,070	56,552
286,071	369,428	253,212
-	140,000	-
-	170,000	-
-	400,000	-
-	500,000	-
-	45,098	16,087
-	41,993	39,309
-	1,223,054	2,073,837
<u>286,071</u>	<u>4,285,384</u>	<u>3,516,219</u>
<u>\$ 1,154,813</u>	<u>\$ 9,644,964</u>	<u>\$ 8,717,154</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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	\$ 4,285,384	\$ 3,516,219
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	92,949	92,949
Construction in Progress	-	-
Land Improvements, Net of Accumulated Depreciation	104,889	119,704
Buildings and Improvements, Net of Accumulated Depreciation	11,376,056	12,015,513
Equipment, Net of Accumulated Depreciation	694,348	636,983
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 unavailable revenue in the funds.		
	24,525	19,372
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.		
	(93,171)	(102,840)
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	(7,577,494)	(21,131,502)
Deferred Inflows of Resources - Pensions	(11,799,044)	(3,473,818)
Deferred Outflows of Resources - Pensions	9,386,860	11,908,399
The District's Other Postemployment Benefits Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:		
Other Postemployment Benefits Liability (Asset)	(465,063)	(488,852)
Deferred Outflows of Resources - Other Postemployment Benefits	101,898	68,404
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	(8,745,000)	(9,595,000)
Unamortized Premiums	(214,591)	(238,583)
Unamortized Discounts	-	-
Capital Leases Payable	(1,108,557)	(1,336,602)
Lot Promissory Note	-	-
Deferred Amount on Bond Refunding	30,939	34,580
Compensated Absences Payable	(49,670)	(44,414)
Total Net Position of Governmental Activities	\$ (3,954,742)	\$ (7,999,488)

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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)**

	General	Food Service	Major Community Service
REVENUES			
Local Sources:			
Property Taxes	\$ 2,879,265	\$ -	\$ 160,187
Earnings and Investments	74,888	1,781	7,117
Other	625,227	348,413	797,576
State Sources	11,105,217	27,223	105,036
Federal Sources	170,372	229,279	-
Total Revenues	<u>14,854,969</u>	<u>606,696</u>	<u>1,069,916</u>
EXPENDITURES			
Current:			
Administration	784,622	-	-
District Support Services	328,472	-	-
Elementary and Secondary Regular Instruction	6,159,064	-	-
Vocational Education Instruction	401,816	-	-
Special Education Instruction	2,535,132	-	-
Instructional Support Services	819,847	-	-
Pupil Support Services	1,103,272	-	-
Sites and Buildings	1,172,442	-	-
Fiscal and Other Fixed Cost Programs	56,079	-	-
Food Service	-	590,053	-
Community Service	-	-	1,107,081
Capital Outlay	458,702	-	-
Debt Service:			
Principal	303,045	-	-
Interest and Fiscal Charges	81,295	-	-
Total Expenditures	<u>14,203,788</u>	<u>590,053</u>	<u>1,107,081</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	651,181	16,643	(37,165)
OTHER FINANCING SOURCES (USES)			
Sale of Equipment	11,500	-	-
Insurance Recovery	35,257	-	-
Payment on Refunded Bonds	-	-	-
Total Other Financing Sources (Uses)	<u>46,757</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	697,938	16,643	(37,165)
FUND BALANCES			
Beginning of Year	3,027,905	40,618	253,374
End of Year	<u>\$ 3,725,843</u>	<u>\$ 57,261</u>	<u>\$ 216,209</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

Debt Service	Total Governmental Funds	
	2019	2018
\$ 707,533	\$ 3,746,985	\$ 3,188,054
11,819	95,605	86,081
-	1,771,216	2,246,279
335,647	11,573,123	11,265,295
-	399,651	383,108
<u>1,054,999</u>	<u>17,586,580</u>	<u>17,168,817</u>
-	784,622	731,409
-	328,472	351,016
-	6,159,064	5,730,441
-	401,816	528,781
-	2,535,132	2,342,100
-	819,847	904,268
-	1,103,272	1,058,242
-	1,172,442	1,005,337
-	56,079	54,518
-	590,053	572,021
-	1,107,081	1,109,997
-	458,702	455,322
775,000	1,078,045	922,483
188,250	269,545	660,000
<u>963,250</u>	<u>16,864,172</u>	<u>16,425,935</u>
91,749	722,408	742,882
-	11,500	426
-	35,257	-
-	-	(8,145,000)
<u>-</u>	<u>46,757</u>	<u>(8,144,574)</u>
91,749	769,165	(7,401,692)
194,322	3,516,219	10,917,911
<u>\$ 286,071</u>	<u>\$ 4,285,384</u>	<u>\$ 3,516,219</u>

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
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	\$ 769,165	\$ (7,401,692)
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	232,946	241,878
Gain (Loss) on Disposal of Capital Assets	4,659	(16,212)
Proceeds from the Sales of Capital Assets	(11,500)	(426)
Depreciation Expense	(823,012)	(803,819)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the governmental funds.		
	5,153	(9,318)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Change in Accrued Interest - Capital Leases	2,695	2,527
Principal Payments - Capital Leases	228,045	210,816
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.		
	2,707,243	(3,056,469)
Other postemployment benefit expenses in the governmental funds are measured by current year employer contributions. Pension expenditures on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.		
	57,283	23,027
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 Bond Proceeds	-	-
Bond Premium	-	-
Loss on Refunding Bonds	-	36,097
Payment on Refunded Bonds	-	8,145,000
Deferred Charges on Refunding Bonds	(3,641)	(1,517)
Repayment of Bond Principal	850,000	645,000
Change in Compensated Absences Payable	(5,256)	757
Change in Accrued Interest - General Obligation Bonds	6,974	159,693
Amortization of Bond Premium	23,992	23,992
Amortization of Bond Discount	-	(38,220)
Payment of Lot Promissory Note Payable	-	66,667
Total	\$ 4,044,746	\$ (1,772,219)

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – 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	\$ 2,896,554	\$ 2,896,554	\$ 2,879,265	\$ (17,289)
Earnings and Investments	10,000	10,000	74,888	64,888
Other	722,283	722,283	625,227	(97,056)
State Sources	11,131,615	11,131,615	11,105,217	(26,398)
Federal Sources	123,340	123,340	170,372	47,032
Total Revenues	<u>14,883,792</u>	<u>14,883,792</u>	<u>14,854,969</u>	<u>(28,823)</u>
EXPENDITURES				
Current:				
Administration	755,142	755,142	784,622	29,480
District Support Services	339,890	339,890	328,472	(11,418)
Elementary and Secondary Regular Instruction	5,840,486	5,840,486	6,159,064	318,578
Vocational Education Instruction	547,576	547,576	401,816	(145,760)
Special Education Instruction	2,487,375	2,487,375	2,535,132	47,757
Instructional Support Services	909,911	909,911	819,847	(90,064)
Pupil Support Services	1,065,040	1,065,040	1,103,272	38,232
Sites and Buildings	1,274,012	1,274,012	1,172,442	(101,570)
Fiscal and Other Fixed Cost Programs	55,548	55,548	56,079	531
Capital Outlay	388,955	388,955	458,702	69,747
Debt Service:				
Principal	303,045	303,045	303,045	-
Interest and Fiscal Charges	81,297	81,297	81,295	(2)
Total Expenditures	<u>14,048,277</u>	<u>14,048,277</u>	<u>14,203,788</u>	<u>155,511</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	835,515	835,515	651,181	(184,334)
OTHER FINANCING SOURCES				
Sale of Equipment	-	-	11,500	11,500
Insurance Recovery	-	-	35,257	35,257
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>46,757</u>	<u>46,757</u>
Net Change in Fund Balance	<u>\$ 835,515</u>	<u>\$ 835,515</u>	697,938	<u>\$ (137,577)</u>
FUND BALANCE				
Beginning of Year			3,027,905	
End of Year			<u>\$ 3,725,843</u>	

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings and Investments	\$ -	\$ -	\$ 1,781	\$ 1,781
Other - Primarily Meal Sales	340,412	340,412	348,413	8,001
State Sources	26,265	26,265	27,223	958
Federal Sources	249,725	249,725	229,279	(20,446)
Total Revenues	<u>616,402</u>	<u>616,402</u>	<u>606,696</u>	<u>(9,706)</u>
EXPENDITURES				
Current:				
Food Service	610,544	610,544	590,053	(20,491)
Total Expenditures	<u>610,544</u>	<u>610,544</u>	<u>590,053</u>	<u>(20,491)</u>
Net Change in Fund Balance	<u>\$ 5,858</u>	<u>\$ 5,858</u>	16,643	<u>\$ 10,785</u>
FUND BALANCE				
Beginning of Year			40,618	
End of Year			<u>\$ 57,261</u>	

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 164,882	\$ 164,882	\$ 160,187	\$ (4,695)
Earnings and Investments	-	-	7,117	7,117
Other - Primarily Tuition and Fees	786,381	786,381	797,576	11,195
State Sources	93,031	93,031	105,036	12,005
Total Revenues	<u>1,044,294</u>	<u>1,044,294</u>	<u>1,069,916</u>	<u>25,622</u>
EXPENDITURES				
Current:				
Community Service	1,071,755	1,071,755	1,107,081	35,326
Capital Outlay	1,500	1,500	-	(1,500)
Total Expenditures	<u>1,073,255</u>	<u>1,073,255</u>	<u>1,107,081</u>	<u>33,826</u>
Net Change in Fund Balance	<u>\$ (28,961)</u>	<u>\$ (28,961)</u>	(37,165)	<u>\$ (8,204)</u>
FUND BALANCE				
Beginning of Year			<u>253,374</u>	
End of Year			<u>\$ 216,209</u>	

See accompanying Notes to Financial Statements.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

	<u>Private-Purpose Trust</u>
ASSETS	
Cash and Investments	\$ 65,316
LIABILITIES	
Accounts and Contracts Payable	<u>5,300</u>
NET POSITION	
Held In Trust	<u><u>\$ 60,016</u></u>

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2019**

	<u>Private-Purpose Trust</u>
ADDITIONS	
Gifts and Donations	\$ 2,952
Earnings on Investments	<u>952</u>
Total Additions	3,904
DEDUCTIONS	
Scholarships Awarded	<u>5,500</u>
Total Deductions	<u>5,500</u>
Change in Net Position	(1,596)
Net Position - Beginning of Year	<u>61,612</u>
Net Position - End of Year	<u><u>\$ 60,016</u></u>

See accompanying Notes to Financial Statements.

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 2805 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. 2805 (the District) is an instrumentality of the state of Minnesota established to function as an education institution. The elected Board of Education (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 included all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds 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 Board of Education does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. In accordance with Minnesota state statutes, the District's Board of Education 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 Board of Education has also not elected to control or exercise oversight responsibility with respect to other student activities. Accordingly, those student activity accounts are not included in these financial statements.

(28)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

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.

C. Basic Financial Statement Presentation

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

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

D. Measurement Focus and Basis of Accounting

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

(29)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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 the accounting principles generally accepted in the United States of America. Minnesota statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

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

Description of Funds

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

Major Governmental Funds

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

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

(30)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of local property taxes, state tax credits, state aids, and user fees restricted for the Community Service Special Revenue program.

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

Fiduciary Funds

Private Purpose Trust Fund – The Private Purpose Trust Fund is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donor.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 or within one week of the acceptance of the final audit by the Board of Education each year. Reported budgeted amounts represent the amended budget as adopted by the Board of Education. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board of Education 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 Board of Education action. Revisions to budgeted amounts must be approved by the Board of Education.

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

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

(31)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

Cash and investments consist of interest bearing accounts, certificates of deposit, and money market accounts. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

G. Accounts Receivable

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

H. 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.

I. Inventories

Inventories are recorded using the consumption method of accounting and consist of food 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.

J. Land Held for Resale

Land held for resale is recorded at the lower of cost or fair value and consists of lots to be used for building homes for vocational construction classes.

K. Property Taxes

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to 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.

(32)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 (frozen at \$152,693) for the District. Certain other portions of the District's 2018 Pay 2019 levy, normally revenue for the 2019-19 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 Property Taxes Levied for Subsequent Years to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

L. Capital Assets

Capital assets are capitalized as historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District capitalizes all computer hardware assets and maintains a threshold level of \$1,000 for capitalizing all other assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

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

(33)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

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

M. Long-Term Obligations

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

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

N. Compensated Absences

Vacation Pay

Full-time, noncertified employees earn annual vacation pay based on length of service in the District. The amount of vacation days the employees earn is based on their years of service and their agreed upon contracts. All outstanding unpaid vacation is payable upon termination of employment. At June 30, 2019, unpaid vacation pay totaling \$49,670 is recorded in the financial statements and is included in compensated absences payable.

O. Other Postemployment Benefits (OPEB)

Under the terms of certain collectively bargained employment contracts, including the teachers' and administrators' contracts, the District makes contributions toward the health insurance premiums of certain retired employees. All premiums are funded on a pay-as-you-go basis. The District also has an implicit rate subsidy for OPEB. This amount was actuarially determined, in accordance with GASB Statement No. 75.

P. Pension

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

(34)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has three items that qualifies for reporting as this element – pension related, other postemployment benefits related and deferred loss on refunding.

R. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s), and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type, pension related, is reported in the statement of net position. These amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

S. 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 user fees.

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 prepaids, inventory, and land held for sale. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently does not report any committed fund balances. The Board of Education passed a resolution authorizing the Superintendent and the Business Manager the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

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

(35)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Fund Balance (Continued)

The District has a minimum fund balance policy, which identifies a minimum unassigned fund balance in the General Fund of \$1.2 Million starting in FY18, with plans to increase this amount by \$240,000 annually through the FY22 school year.

U. Risk Management

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters, and workers' compensation. The District purchases commercial insurance coverage for such risks.

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

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

V. Net Position

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

W. Summarized Comparative Information

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

(36)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Expenditures	Excess
General Fund	\$ 14,048,277	\$ 14,203,788	\$ 155,511
Special Revenue Funds:			
Community Service Fund	1,073,255	1,107,081	33,826

The expenditures in excess of budget were covered by revenues and existing fund balance.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

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

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with Minnesota statutes, the District maintains deposits at financial institutions which are authorized by the 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 District's deposits in banks at June 30, 2019 were not fully covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes. The District's accounts were fully collateralized at June 30, 2019.

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

Deposits	\$ 6,276,370
Cash on Hand	368
Total Cash and Investments	\$ 6,276,738
Cash and Investments - Statement of Net Position	\$ 6,211,422
Cash and Investments - Statement of Fiduciary Net Position	65,316
Total Cash and Investments	\$ 6,276,738

(37)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 92,949	\$ -	\$ -	\$ 92,949
Total Capital Assets, Not Being Depreciated	\$ 92,949	\$ -	\$ -	\$ 92,949
Capital Assets, Being Depreciated				
Land Improvements	757,313	-	-	757,313
Buildings and Improvements	22,983,453	60,869	-	23,044,322
Equipment	2,389,820	172,077	(113,504)	2,448,393
Total Capital Assets, Being Depreciated	26,140,586	232,946	(113,504)	26,260,028
Accumulated Depreciation for:				
Land Improvements	(637,609)	(14,815)	-	(652,424)
Buildings and Improvements	(10,977,940)	(700,326)	-	(11,678,266)
Equipment	(1,752,837)	(107,871)	106,663	(1,754,045)
Total Accumulated Depreciation	(13,368,386)	(823,012)	106,663	(14,084,735)
Total Capital Assets, Being Depreciated, Net	12,772,200	(590,066)	(6,841)	12,175,293
Governmental Activities Capital Assets, Net	\$ 12,865,149	\$ (590,066)	\$ (6,841)	\$ 12,268,242

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

Governmental Activities	
Administration	\$ 5,088
District Support Services	5,260
Regular Instruction	685,141
Vocational Education Instruction	1,641
Special Education Instruction	4,445
Instructional Support Services	1,967
Pupil Support Services	14,984
Sites and Buildings	93,191
Food Services	2,269
Community Services	9,029
Total Depreciation Expense, Governmental Activities	\$ 823,012

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

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

Issue Date	Interest Rate	Original Issue	Maturities	Due Within One Year	Principal Outstanding Total
5/1/2013	2.0-2.5%	\$ 8,515,000	2/1/2028	\$ 760,000	\$ 7,740,000
12/21/2016	1.65-3.00%	1,080,000	2/1/2031	75,000	1,005,000
Total General Obligation Bonds				835,000	8,745,000
Bond Premiums				-	214,591
Capital Leases Payable				246,424	1,108,557
Compensated Absences Payable				48,893	49,670
				\$ 1,150,317	\$ 10,117,818

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt:

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2020	\$ 885,000	\$ 193,165
2021	885,000	176,348
2022	900,000	158,910
2023	920,000	140,985
2024	940,000	122,665
2025-2029	4,055,000	291,333
2030-2031	190,000	8,550
Total	\$ 8,745,000	\$ 1,091,976

C. Description of Long-Term Debt

General Obligation Alternative Facilities Refunding Bonds, Series 2013A

On May 1, 2013, the District issued \$8,515,000 of General Obligation Alternative Facilities Refunding Bonds, Series 2013A. The proceeds of the issue were used to refund in advance of their stated maturities, the remaining maturities of the District's General Obligation Alternative Facilities Bonds, Series 2008A.

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

General Obligation Capital Facilities Bonds

On December 21, 2016, the District issued \$1,080,000 of General Obligation Capital Facilities Bonds, Series 2016A. The proceeds of the issue were used to finance certain capital projects, including projects to optimize energy use in the District. Future ad valorem tax levies, are dedicated to retire these bonds.

Capital Leases Payable

The District raised funds through the issuance of two lease purchase agreements during the year ended June 30, 2008. The lease purchase agreement in the amount of \$1,549,370, dated October 30, 2007 was used to finance the addition of various equipment and renovations to buildings designed to produce energy savings. The lease purchase agreement in the amount of \$1,280,000, dated February 5, 2008 was used to finance the renovation of roofing throughout the District. These lease purchase agreements are structured as governmental lease purchase agreements for facility improvements. Under the terms of the agreements, the lessors established escrow accounts to account for the proceeds from the respective issues. The District then made periodic drawdowns on these escrow accounts as facility improvements commenced.

The roofing project was capitalized and has a cost of \$1,280,000 and accumulated depreciation of \$640,000 at June 30, 2019. Also, the energy project was capitalized and has a cost of \$1,404,256 and accumulated depreciation of \$505,532.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 291,772
2021	300,490
2022	309,646
2023	319,259
	<u>1,221,167</u>
Total Minimum Lease Payments	
Less: Amounts Representing Interest	112,610
Present Value of Net Minimum Lease Payments	<u>\$ 1,108,557</u>

Compensated Absences Payable

Compensated absences payable consist of unused vacation days payable to employees upon termination of employment. Compensated absences are paid by the General Fund.

(40)

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

	June 30, 2018	Additions	Retirements	June 30, 2019
Bonds Payable	\$ 9,595,000	\$ -	\$ 850,000	\$ 8,745,000
Bond Premiums	238,583	-	23,992	214,591
Capital Leases Payable	1,336,602	-	228,045	1,108,557
Compensated Absences Payable	44,414	5,924	668	49,670
Total	<u>\$ 11,214,599</u>	<u>\$ 5,924</u>	<u>\$ 1,102,705</u>	<u>\$ 10,117,818</u>

NOTE 6 RESTRICTED FUND BALANCES

Fund Equity

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

A. Restricted for Staff Development

In accordance with Minnesota statutes, Restricted for Staff Development represents available resources dedicated exclusively for staff development.

B. Restricted for Health and Safety

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

C. Restricted for Operating Capital

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

D. Restricted for Learning and Development

Represents the available general education revenues for learning and development, which is mainly for reducing the pupil-to-staff ratio.

E. Restricted for Community Education Programs

The fund balance restriction represents accumulated resources available to provide general community education programming.

F. Restricted for Early Childhood and Family Education Programs

The fund balance restriction represents accumulated resources available to provide services for early childhood family education programming.

(41)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)

- G. Restricted for Gifted and Talented**
Restricted for gifted and talented represents available resources to provide gifted and talented programming in accordance with funding made available for that purpose.
- H. Restricted for Basic Skills**
In accordance with State Statute, this restriction represents available resources dedicated exclusively for meeting the educational needs of pupils who enroll under-prepared for learners of their age.
- I. Restricted for Teacher Development and Evaluation**
Restricted for teacher development and evaluation represents available resources for teacher development and evaluation uses listed in Minnesota Statute, section 122A.40, Subd 8 or section 122A.41, Subd 5.
- J. Restricted for Safe Schools Levy**
Restricted for safe schools levy represents available resources to be used only to provide for safe schools – crime projects.
- K. Restricted for Long Term Facility Maintenance(LTFM)**
The fund balance restriction represents resources to be used for LTFM projects in accordance with the 10-Year Plan.
- L. Restricted for Medical Assistance**
The fund balance restriction represents resources to be used for additional special education activities funded from Medical Assistance revenue.
- M. Restricted for Other Purposes**
Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. In the General Fund, this amount is restricted by a donor to be used for future technology purchases.

NOTE 7 ASSIGNED FUND BALANCES

At June 30, 2019, the District has assigned fund balances for the following purposes:

School Purposes:	\$ 10,377
Wellness	34,721
Q-Comp	41,993
Student Activity Funds	87,091
Total Assigned Fund Balance	\$ 174,182

(42)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 DEFINED BENEFIT PENSION PLANS

- A. Plan Description**
The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA and TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA and TRA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code.
 1. **General Employees Retirement Plan (GERF)**
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 the Coordinated Plan. Coordinated Plan members are covered by Social Security.
 2. **Teachers Retirement Fund (TRA)**
The Teacher's Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials. Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or University of Minnesota System).
- 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. 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. **GERF Benefits**
General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years 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.

(43)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERS Benefits (Continued)
Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.
2. TRA Benefits
TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

Tier I Benefits

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

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% 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

(44)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)
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.

C. Contribution Rate

1. GERF Contributions
Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution 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 \$126,436. The District's contributions were equal to the required contributions for each year as set by state statute.
2. TRA Contributions
Per Minnesota Statutes, Chapter 354 rates for the fiscal year for coordinated were 7.5% for the employee and 7.71% for the employer. Basic rates were 11.00% for the employee and 11.71% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$449,382. The District's contributions were equal to the required contributions for each year as set by state statute.

(45)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. GERF Pension Costs
At June 30, 2019, the District reported a liability of \$1,242,660 for its proportionate share of the General Employees Plan's net pension liability. The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the District totaled \$40,876. 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 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 .0224% which was a decrease of 0.0003% from its proportion measured June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$41,546 for its proportionate share of the GERF's pension expense. It also recognized \$9,532 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 GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 32,891	\$ 36,243
Changes in Actuarial Assumptions	118,706	139,626
Net Difference Between Projected and Actual Earnings on Plan Investments		126,980
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions		21,972
District Contributions Subsequent to the Measurement Date	126,436	-
Total	\$ 278,033	\$ 324,821

(46)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)
Of the resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$126,436 reported as deferred outflows 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 the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 33,463
2021	(75,090)
2022	(105,662)
2023	(25,935)

2. TRA Pension Costs

At June 30, 2019, the District reported a liability of \$6,334,834 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 .1009% at the end of the measurement period and .0986% 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	\$ 6,334,834
State's Proportionate Share of the Net Pension Liability Associated with the District	595,175

(47)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

For the year ended June 30, 2019, the District recognized negative pension expense of \$(2,180,558). It also recognized \$35,893 as pension expense 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:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 67,569	\$ 127,743
Changes in Actuarial Assumptions	8,179,443	10,801,679
Net Difference Between Projected and Actual Earnings on Plan Investments	-	491,261
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	412,433	53,540
District Contributions Subsequent to the Measurement Date	449,382	-
Total	\$ 9,108,827	\$ 11,474,223

Of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date, \$449,382 reported as deferred outflows will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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	\$ 670,591
2021	458,745
2022	56,988
2023	(2,334,419)
2024	(1,666,683)

(48)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Aggregate Pension Costs

At June 30, 2019, the District reported the following aggregate amounts related to pensions for all plans to which it contributes:

	TRA	General	Total
Net Pension Liability	\$ 6,334,834	\$ 1,242,680	\$ 7,577,494
Deferred Outflows of Resources	9,108,827	278,033	9,386,860
Deferred Inflows of Resources	11,474,223	324,821	11,799,044
Pension Expense	(2,144,665)	51,078	(2,093,587)

E. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and dependents were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.0% per year for General Employees Plan through 2044 and 2.5% per year thereafter. Cost of living benefit increases for retirees are assumed to be 2.0% per year for TRA through June 30, 2044, increasing to 2.50% per year on July 1, 2045.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions for General Employees Plan occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested deferred members. The revised CSA loads are now 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.

(49)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions for TRA occurred in 2017:

- 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.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0%, the vested inactive load increased from 4.0% to 7.0% and the nonvested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect changes in the general wage growth assumption.

The long-term expected rate of return on pension plan investments is 7.5% for General Employees Plan and 5.12% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39 %	5.10%
International Equity	19	5.30%
Bonds	20	0.75%
Alternative Assets	20	5.90%
Cash	2	0.00%
Totals	<u>100 %</u>	

(50)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total GERSF pension liability was 7.5%. 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the TRA pension liability was 5.12%. This is no change 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 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was 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:

Description	1% Decrease	Current	1% Increase in
	Discount Rate	Discount Rate	Discount Rate
GERSF Discount Rate	6.50%	7.50%	8.50%
District's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 2,019,482	\$ 1,242,660	\$ 601,416
TRA Discount Rate	4.12%	5.12%	6.12%
District's Proportionate Share of the TRA Net Pension Liability	\$ 10,057,530	\$ 6,334,834	\$ 3,268,495

H. Pension Plan Fiduciary Net Position

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

(51)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position (Continued)

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnestotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

NOTE 9 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 \$147,811, \$134,895, and \$106,679, respectively. The related employee contributions were \$231,813, \$224,337, and \$191,988 for the years ended June 30, 2019, 2018, and 2017, respectively.

NOTE 10 FLEXIBLE BENEFIT PLAN

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

Before the beginning of the plan year, which is from July 1 to June 30, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions 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.

(52)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree defined benefit plan (the Plan) that provides health insurance to eligible employees and their spouses. There are 115 active participants and 9 inactive participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Contributions

Contribution requirements are also negotiated between the District and union representatives. The District contributes the cost of current-year premiums for eligible retired Plan members. For fiscal year 2019, the District contributed \$116,716 to the Plan.

C. Total OPEB Liability

The District's total OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined 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	N/A

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.40%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

D. Changes in the Total OPEB Liability

	Total OPEB Liability
Balances at June 30, 2018	\$ 488,852
Service Cost	28,189
Interest	16,426
Benefit Payments	(68,404)
Net Changes	(23,789)
Balances at June 30, 2019	\$ 465,063

(53)

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. OPEB Liability Sensitivity

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

	1% Decrease 2.40 %	Discount Rate 3.40 %	1% Increase 4.40 %
Total OPEB Liability	\$ 489,349	\$ 465,063	\$ 441,745

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

	Healthcare Cost Trend Rates	1% Increase (7.25%)
Total OPEB Liability	\$ 422,532	\$ 515,228

F. OPEB Expense

For the year ended June 30, 2019, the District recognized OPEB expense of \$44,615. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District Contributions Subsequent to the Measurement Date	\$ 101,898	\$ -
Total	\$ 101,898	\$ -

District contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

NOTE 12 JOINTLY GOVERNED ORGANIZATION

The Goodhue County Education District No. 61-6051 was established by an act of the 1987 legislature of the state of Minnesota. The primary objective of the District is to provide, by a cooperative effort, comprehensive educational programs and other related services as can be effectively operated by its five member districts. Each member shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements, and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources. The jointly governed organization's financial statements are audited and available for inspection.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Federal and State Receivables

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

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2019**

	2019	2018
Total OPEB Liability		
Service Cost	\$ 28,189	\$ 27,368
Interest	16,426	18,009
Benefit Payments	(68,404)	(116,716)
Net Change in Total OPEB Liability	(23,789)	(71,339)
Total OPEB Liability - Beginning	488,852	560,191
Total OPEB Liability - Ending	\$ 465,063	\$ 488,852
Covered Employee Payroll	\$ 6,199,935	\$ 6,019,354
District's Total OPEB liability as a Percentage of the Covered Employee Payroll	7.50%	8.12%

Note 1: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Note 2: No assets are accumulated in a trust.

REQUIRED SUPPLEMENTARY INFORMATION

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST FIVE FISCAL YEARS**

	2019	2018	2017	2016	2015
PERA - General Employees Plan					
Statutorily Required Contribution	\$ 126,436	\$ 112,792	\$ 109,723	\$ 105,645	\$ 99,899
Contributions in Relation to the Statutorily Required Contribution	<u>(126,436)</u>	<u>(112,792)</u>	<u>(109,723)</u>	<u>(105,645)</u>	<u>(99,899)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 1,685,812	\$ 1,503,891	\$ 1,462,971	\$ 1,408,603	\$ 1,352,048
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.38%
TRA					
Statutorily Required Contribution	\$ 449,382	\$ 423,188	\$ 401,856	\$ 375,237	\$ 365,966
Contributions in Relation to the Statutorily Required Contribution	<u>(449,382)</u>	<u>(423,188)</u>	<u>(401,856)</u>	<u>(375,237)</u>	<u>(365,966)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 5,806,300	\$ 5,619,946	\$ 5,358,067	\$ 5,003,158	\$ 4,879,545
Contributions as a Percentage of Covered Payroll	7.74%	7.53%	7.50%	7.50%	7.50%

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

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST FIVE YEARS**

Measurement Date	2019	2018	2017	2016	2015
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
PERA - General Employees Plan					
District's Proportion of the Net Pension Liability	0.0224%	0.0227%	0.0229%	0.0230%	0.0240%
District's Proportionate Share of the Net Pension Liability	\$ 1,242,660	\$ 1,449,153	\$ 1,859,366	\$ 1,191,979	\$ 1,127,400
State's Proportionate Share of the Net Pension Liability	40,876	18,206	24,285	-	-
Associated with District	<u>\$ 1,283,536</u>	<u>\$ 1,467,359</u>	<u>\$ 1,883,651</u>	<u>\$ 1,191,979</u>	<u>\$ 1,127,400</u>
District's Covered Payroll	\$ 1,503,891	\$ 1,462,971	\$ 1,408,603	\$ 1,352,048	\$ 1,260,914
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	85.35%	100.30%	133.72%	88.16%	89.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.90%	78.20%	78.70%
TRA					
District's Proportion of the Net Pension Liability	0.1009%	0.0986%	0.0955%	0.0961%	0.1006%
District's Proportionate Share of the Net Pension Liability	\$ 6,334,834	\$ 19,682,349	\$ 22,779,029	\$ 5,944,735	\$ 4,635,576
State's Proportionate Share of the Net Pension Liability	595,175	1,902,078	2,286,731	729,262	326,176
Associated with District	<u>\$ 6,930,009</u>	<u>\$ 21,584,427</u>	<u>\$ 25,065,760</u>	<u>\$ 6,673,997</u>	<u>\$ 4,961,752</u>
District's Covered Payroll	\$ 5,619,946	\$ 5,358,067	\$ 5,003,158	\$ 4,879,545	\$ 4,593,443
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	112.72%	367.34%	455.29%	121.83%	100.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	51.57%	44.88%	76.80%	81.50%

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



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

OTHER REQUIRED REPORTS

Board of Education
Independent School District No. 2805
Mazeppa, 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. 2805, 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. 2805's basic financial statements, and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 2805's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 2805's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 2805'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 identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a material weakness.



(59)

Board of Education
Independent School District No. 2805

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 2805's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent School District No. 2805's Response to Finding

Independent School District No. 2805's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Independent School District No. 2805'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
October 10, 2019

(60)



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**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

Board of Education
Independent School District No. 2805
Mazeppa, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2805, as of and for the year ended June 30, 2019, and the related notes to the financial statements and have issued our report thereon dated October 10, 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. 2805 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 2805'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 communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Rochester, Minnesota
October 10, 2019



(61)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

FINDING: 2019-001

ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition:

The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by accounting principles generally accepted in the United States of America are included in the annual financial statements. The potential exists that a material disclosure could be omitted from the annual financial statements and not be prevented, or detected and corrected, by the District's internal controls.

Criteria:

The District should have controls in place to prevent, or detect and correct, an omission of a material disclosure in the annual financial statements.

Effect:

The potential exists that a material disclosure could be omitted from the financial statements and not be prevented, or detected and corrected, by the District's internal controls.

Cause:

The District does not have the expertise to draft the notes to the financial statements; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

Recommendation:

We recommend that the District continue to evaluate their internal staff, and expertise to determine if further controls over annual financial reporting are beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Coordinator of Fiscal Services receives a draft of the financial statements as prepared by the audit firm. She reviews all pages and compares all data to reports pulled from the Smart Finance system to verify the accuracy of any financial information reported. This involves comparison of revenue, expenditures, and all balance sheet data. However, the District will continue to engage the audit firm for completeness of the disclosures. The Coordinator of Fiscal Services will review the disclosures for accuracy, compare balances to UFARS and other District reports, and discuss any discrepancies with the audit firm with satisfactory resolution for both parties prior to authorizing final drafting of the financial statements.

Official Responsible for Ensuring CAP:

Diane Matthees, Coordinator of Fiscal Services, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Planned completion date is June 30, 2020.

Plan to Monitor Completion of CAP:

The Zumbrota-Mazeppa Board of Education will be monitoring this corrective action plan.

(62)

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2019

	DIFFERENCE		DIFFERENCE		DIFFERENCE	
	AUDIT	UFARS	AUDIT	UFARS	AUDIT	UFARS
41 GENERAL FUND						
Total Revenue	\$ 14,800,226	\$ 14,800,216	\$ 14,800,226	\$ 14,800,216	\$ -	\$ -
Total Expenditures	\$ 12,033,788	\$ 12,033,777	\$ 12,033,788	\$ 12,033,777	\$ -	\$ -
Nonspendable						
460 Nonspendable Fund Balance	\$ 294,550	\$ 294,550	\$ -	\$ -	\$ -	\$ -
Reassigned						
405 Deferred Maintenance	\$ 87,680	\$ 87,680	\$ -	\$ -	\$ -	\$ -
405 Deferred Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
405 Alternative Facility Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
413 Project Funded by COP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
464 Restricted Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unassigned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
465 Unassigned Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
07 DEBT SERVICE						
Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ 1,054,589	\$ 1,054,500
Total Expenditures	\$ -	\$ -	\$ -	\$ -	\$ 263,220	\$ 263,220
Nonspendable						
460 Nonspendable Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reassigned						
425 Bond Refunding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
425 Alternative Facility Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
425 Project Funded by COP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
464 Restricted Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ 286,071	\$ 286,071
Unassigned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
465 Unassigned Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
08 TRUST						
Total Revenue	\$ 3,904	\$ 3,904	\$ 3,904	\$ 3,904	\$ -	\$ -
Total Expenditures	\$ 5,500	\$ 5,500	\$ -	\$ -	\$ -	\$ -
Net Position	\$ -	\$ -	\$ 8,006	\$ 8,006	\$ -	\$ -
422 Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20 INTERNAL SERVICE						
Total Revenue	\$ 140,000	\$ 140,000	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 1,070,000	\$ 1,070,000	\$ -	\$ -	\$ -	\$ -
Net Position	\$ 87,041	\$ 87,041	\$ -	\$ -	\$ -	\$ -
422 Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25 OPER REVOCAABLE TRUST						
Total Revenue	\$ 13,783,029	\$ 13,783,028	\$ 1	\$ -	\$ -	\$ -
Total Expenditures	\$ 1,089,916	\$ 1,089,919	\$ -	\$ -	\$ -	\$ -
Net Position	\$ 12,703,113	\$ 12,703,109	\$ 4	\$ -	\$ -	\$ -
422 Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
45 OPER REVOCAABLE TRUST						
Total Revenue	\$ 658,668	\$ 658,664	\$ 4	\$ -	\$ -	\$ -
Total Expenditures	\$ 590,825	\$ 590,825	\$ -	\$ -	\$ -	\$ -
Net Position	\$ 67,843	\$ 67,839	\$ 4	\$ -	\$ -	\$ -
422 Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
47 OPER DEBT SERVICE						
Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
422 Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
64 COMMUNITY SERVICE						
Total Revenue	\$ 1,089,916	\$ 1,089,919	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 1,070,887	\$ 1,070,887	\$ 19	\$ -	\$ -	\$ -
Net Position	\$ 20,029	\$ 20,032	\$ -	\$ -	\$ -	\$ -
460 Nonspendable Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reassigned						
425 Bond Refunding	\$ 335,203	\$ 335,203	\$ -	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ 2,627	\$ 2,627	\$ -	\$ -	\$ -	\$ -
444 Reserve Development and Evaluations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
447 Adult Basic Education	\$ 1,053,087	\$ 1,053,092	\$ -	\$ -	\$ -	\$ -
452 OPEB Liability Not Held In Trust	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
464 Restricted Fund Balance	\$ 31,079	\$ 31,079	\$ -	\$ -	\$ -	\$ -
Unassigned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
465 Unassigned Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(63)



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STUDENT ACTIVITY FUNDS

INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2805
Mazeppa, 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. 2805 as of and for the year ended June 30, 2019, and the related note to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial 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 statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



(64)

Board of Education
Independent School District No. 2805

**ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS – HIGH SCHOOL
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
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. 2805 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 statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial 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. 2805 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 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. 2805 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

Rochester, Minnesota
October 10, 2019

Funds	Balance 6/30/2018	Transfer and Receipts	Disbursements	Balance 6/30/2019
National Honor Society	\$ 266	\$ 915	\$ 659	\$ 522
Class of 2017	-	-	-	-
Class of 2018	-	-	-	-
Class of 2019	100	7,764	7,864	-
Band-Sr High	5,244	-	535	4,709
Baseball	-	3,300	3,290	10
Cheerleading	864	-	864	-
Close Up	15,412	36,286	36,270	15,428
FFA	8,484	28,295	33,196	3,583
SADD Chapter	1,782	-	-	1,782
FCCLA	378	5,258	5,003	633
Student Council-Middle	3,126	-	104	3,022
Student Council-Sr High	3,738	11,206	6,680	8,264
Vocal	6,516	38,438	37,637	7,317
Total	\$ 45,910	\$ 131,462	\$ 132,102	\$ 45,270

ZUMBROTA-MAZEPPA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2805
STUDENT ACTIVITY FUNDS
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS
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.



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

Board of Education
Independent School District No. 2805
Mazeppa, 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. 2805 as of and for the year ended June 30, 2019, and the related note to the financial statement, which collectively comprises the basic financial statement, and have issued our report thereon dated October 10, 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.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Manual for Activity Fund Accounting* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Rochester, Minnesota
October 10, 2019



(67)

(68)

FORM OF LEGAL OPINION

(See following pages)

FORM OF LEGAL OPINION



Independent School District No. 2805
Mazeppa, Minnesota

[Original Purchaser]

Re: \$30,270,000* General Obligation School Building and Facilities Maintenance Bonds,
Series 2020A
Independent School District No. 2805 (Zumbrota-Mazeppa Public Schools), Minnesota
Wabasha, Goodhue and Olmsted Counties, Minnesota

Ladies and Gentlemen:

As Bond Counsel in connection with the authorization, issuance and sale by Independent School District No. 2805 (Zumbrota-Mazeppa Public Schools), Minnesota (the District), of the obligations described above, dated, as originally issued, as of February 6, 2120 (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. 2805
[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 6th day of February, 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.

APPENDIX E

TERMS OF PROPOSAL

**\$30,270,000* GENERAL OBLIGATION SCHOOL BUILDING AND
FACILITIES MAINTENANCE BONDS, SERIES 2020A
INDEPENDENT SCHOOL DISTRICT NO. 2805
(ZUMBROTA-MAZEPPA PUBLIC SCHOOLS), MINNESOTA**

Proposals for the purchase of \$30,270,000* General Obligation School Building and Facilities Maintenance Bonds, Series 2020A (the "Bonds") of Independent School District No. 2805 (Zumbrota-Mazeppa 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 10:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:30 A.M. Central Time, on January 13, 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 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 123B.595 (long-term facilities maintenance revenue), and a special election held November 5, 2019, by the District to provide funds for the acquisition and betterment of school sites and facilities, including but not limited to, security and heating/ventilation improvements, classroom additions and renovations, cafeteria, and technical education learning space and auditorium expansions; and to provide funds for various deferred maintenance projects included in the ten-year facility plan of the District and approved by the Commissioner of Education. 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 February 6, 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	\$415,000	2030	\$1,465,000	2039	\$1,330,000
2022	510,000	2031	1,495,000	2040	1,465,000
2023	570,000	2032	1,550,000	2041	1,470,000
2024	685,000	2033	1,570,000	2042	1,460,000
2025	770,000	2034	1,580,000	2043	1,465,000
2026	810,000	2035	1,590,000	2044	1,465,000
2027	850,000	2036	1,345,000	2045	1,470,000
2028	885,000	2037	1,340,000		
2029	1,380,000	2038	1,335,000		

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 February 6, 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 \$29,967,300 plus accrued interest on the principal sum of \$30,270,000 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 10:30 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

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

A good faith deposit ("Deposit") in the amount of \$605,400 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. 2805
(Zumbrota-Mazeppa Public Schools), Minnesota

PROPOSAL FORM

**The Board of Education
Independent School District No. 2805 (Zumbrota-Mazeppa Public Schools), Minnesota**

January 13, 2020

RE: \$30,270,000* General Obligation School Building and Facilities Maintenance Bonds, Series 2020A (the "Bonds")
DATED: February 6, 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 \$29,967,300) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____	% due	2021	_____	% due	2030	_____	% due	2039
_____	% due	2022	_____	% due	2031	_____	% due	2040
_____	% due	2023	_____	% due	2032	_____	% due	2041
_____	% due	2024	_____	% due	2033	_____	% due	2042
_____	% due	2025	_____	% due	2034	_____	% due	2043
_____	% due	2026	_____	% due	2035	_____	% due	2044
_____	% due	2027	_____	% due	2036	_____	% due	2045
_____	% due	2028	_____	% due	2037	_____	% due	
_____	% due	2029	_____	% due	2038	_____	% due	

* 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 \$605,400 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 February 6, 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 February 6, 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. 2805 (Zumbrota-Mazeppa Public Schools), Minnesota, on January 13, 2020.

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