

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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INDEPENDENT SCHOOL DISTRICT NO. 77
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INTRODUCTORY SECTION

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2019**

BOARD OF EDUCATION

Darren Wacker	Chairperson
Jodi Sapp	Vice Chairperson
Judi Brandon	Treasurer
Sara Hansen	Clerk
Ann Hendricks	Director
Kristi Schuck	Director
Abdi Sabrie	Director

ADMINISTRATION

Paul Peterson	Superintendent
Tom Sager	Director of Business Services

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 77
Mankato, 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. 77, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 77 as of June 30, 2019, and the respective changes in financial position and cash flows, where applicable, 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.

Emphasis of a Matter

During fiscal year ended June 30, 2018, Independent School District No. 77 restated the beginning fund balance of the Community Service Fund and the Governmental Activities net position due to a prior period misstatement of unearned revenues. See the detail of the prior period adjustment and restatement in Note 14. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 77's basic financial statements. The Schedule of Changes in Fund Equities and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Changes in Fund Equities, the Uniform Financial Accounting and Reporting Standards Compliance Table, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 29, 2019 on our consideration of Independent School District No. 77'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. 77'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. 77's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 29, 2019

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REQUIRED SUPPLEMENTARY INFORMATION

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

This section of Independent School District No. 77's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

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

- § Net Position of governmental activities increased a total of \$23,446,979. Most of the increase in net position was primarily due to the net effect of the large changes in District's proportionate share of the net pension liability, deferred inflows.
- § The General Fund Balance decreased from \$9,853,977 on June 30, 2018 to \$9,023,883 on June 30, 2019. This represents 8.47% of the General Fund, which is 31 days of operation.
- § Total K-12 Average Daily Membership increased 86 students, up 1.00% from 2017-18.
- § The Community Service Fund Balance experienced a decrease in fund balance totaling \$342,569 to \$1,173,214 as of June 30, 2019. A total of \$132,292 of the decrease related to a restatement of beginning fund balance due to a prior period misstatement of unearned revenues (see Note 14).
- § The Debt Service Fund Balance decreased from \$16,428,828 as of June 30, 2018 to \$1,434,449 as of June 30, 2019 because the majority of the 2008A G.O. School Building Bonds met their crossover refunding date in fiscal year 2019 and were paid out of the refunding escrow cash from the 2015B and 2016A G.O. Crossover Refunding Bonds.

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- 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.
- Proprietary funds statements offer short- and long-term financial information about the activities the district operates like businesses.
- § *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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position from Governmental activities was negative \$57,701,342 on June 30, 2019 (see Table A-1). This negative position is due to GASB 68 that requires school districts to place its share of net pension liabilities in their financial statements. Also, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in fiscal 2018.

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

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 49,182,378	\$ 66,866,895	(26.45)%
Capital Assets	113,305,376	117,627,189	(3.67)
Total Assets	<u>162,487,754</u>	<u>184,494,084</u>	(11.93)
Deferred Outflows of Resources	84,315,698	105,671,219	(20.21)
Current Liabilities	9,881,307	13,056,656	(24.32)
Long-Term Liabilities	92,059,113	114,183,415	(19.38)
Net Pension Liability	66,306,827	180,568,345	(63.28)
Net OPEB Liability	8,219,667	7,810,640	5.24
Total Liabilities	<u>176,466,914</u>	<u>315,619,056</u>	(44.09)
Deferred Inflows of Resources	<u>128,037,880</u>	<u>55,562,276</u>	130.44
Net Position:			
Net Investment in Capital Assets	34,373,008	33,451,580	2.75
Restricted	7,116,426	5,516,273	29.01
Unrestricted	(99,190,776)	(119,983,882)	(17.33)
Total Net Position	<u>\$ (57,701,342)</u>	<u>\$ (81,016,029)</u>	(28.78)

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

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

	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2019	2018	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 5,989,074	\$ 5,969,304	0.33 %
Operating Grants and Contributions	28,793,631	30,889,835	(6.79)
Capital Grants and Contributions	1,504,786	1,777,580	(15.35)
<u>General Revenues</u>			
Property Taxes	26,982,782	23,019,452	17.22
Unrestricted State Aid	59,297,496	57,037,989	3.96
Investment Earnings	630,553	507,498	24.25
Other	95,655	75,834	26.14
Total Revenues	<u>123,293,977</u>	<u>119,277,492</u>	3.37
Expenses			
Administration	2,754,657	4,344,682	(36.60)
District Support Services	1,939,143	2,187,635	(11.36)
Regular Instruction	41,257,541	69,910,937	(40.99)
Vocational Education Instruction	1,103,878	1,969,214	(43.94)
Special Education Instruction	16,009,407	26,220,888	(38.94)
Instructional Support Services	5,232,628	7,986,044	(34.48)
Pupil Support Services	7,365,680	8,298,726	(11.24)
Sites and Buildings	10,036,066	9,513,196	5.50
Fiscal and Other Fixed Cost Programs	273,087	345,496	(20.96)
Food Service	4,539,108	4,821,928	(5.87)
Community Service	6,108,949	7,296,333	(16.27)
Interest and Fiscal Charges on Long-Term Liabilities	<u>3,226,854</u>	<u>3,874,992</u>	(16.73)
Total Expenses	<u>99,846,998</u>	<u>146,770,071</u>	(31.97)
Change in Net Position	23,446,979	(27,492,579)	
Beginning Net Position	(81,016,029)	(53,523,450)	
Change in Accounting Principle	(132,292)	-	
Beginning Net Position, as Restated	<u>(81,148,321)</u>	<u>(53,523,450)</u>	
Ending Net Position	<u>\$ (57,701,342)</u>	<u>\$ (81,016,029)</u>	

Changes in Net Position

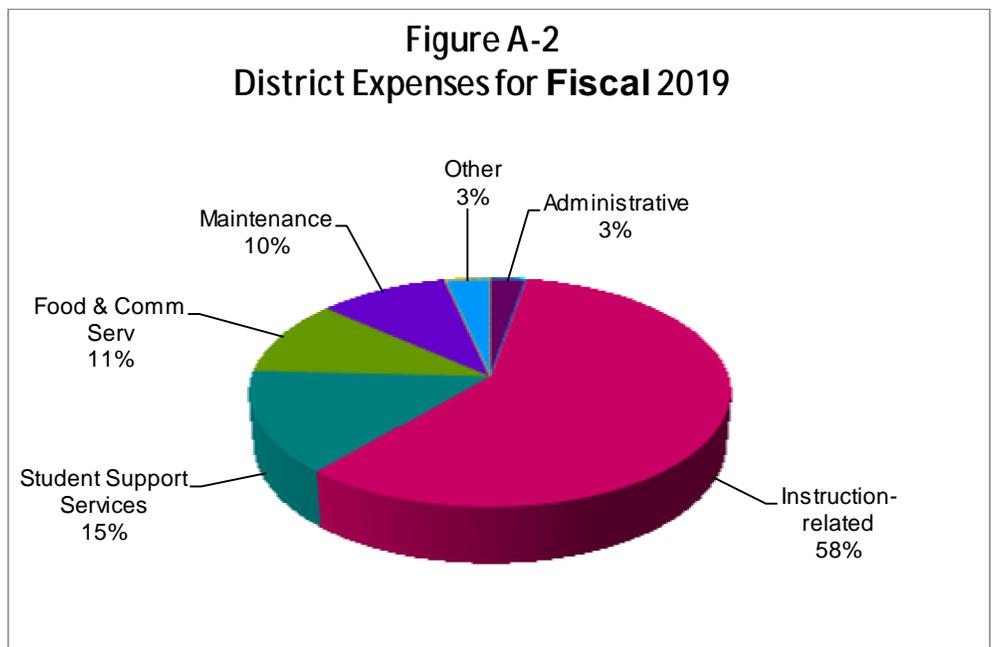
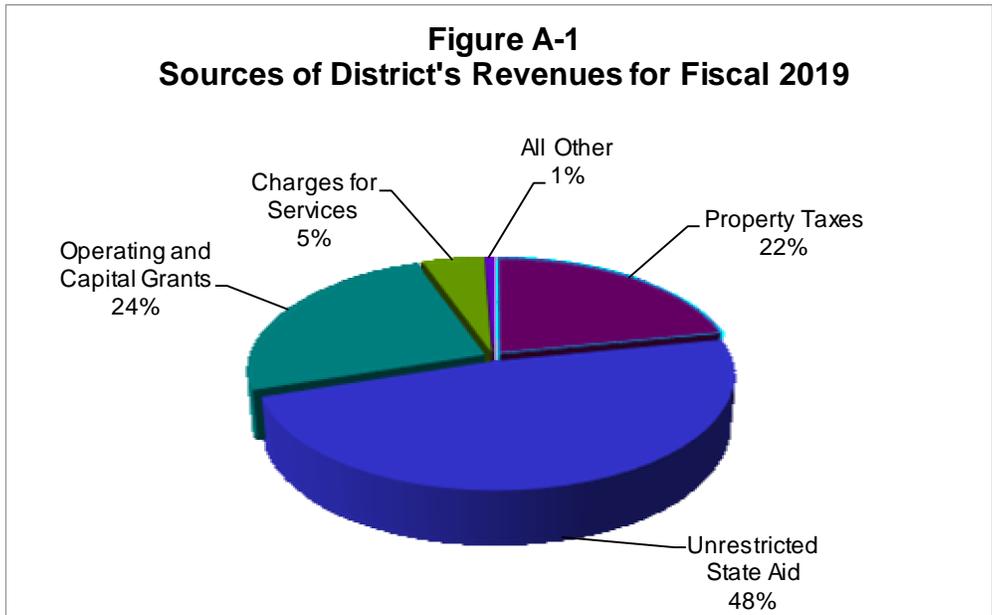
The District's total revenues were \$123,293,977 for the year ended June 30, 2019. Unrestricted state aid accounted for 48%, property taxes accounted for 22%, operating and capital grants accounted for 24%, and charges for services accounted for 5% (see Figure A-1).

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$99,846,998. Direct instruction related costs accounted for 58%, student support services accounted for 15%, buildings and equipment costs accounted for 10%, community education services and food service accounted for 11%, administration 3%, and other expenses accounted for 4% of the total (see Figure A-2).

In summary, the District has a stable overall financial position with which to continue operations.



**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
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 above. 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 Food Service and Community Education Funds, 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 previous 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.

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2019	2018		2019	2018	
Administration	\$ 2,754,657	\$ 4,344,682	(36.60)%	\$ 2,876,547	\$ 4,329,875	(33.57)%
District Support Services	1,939,143	2,187,635	(11.36)	1,924,800	2,048,737	(6.05)
Regular Instruction	41,257,541	69,910,937	(40.99)	33,370,821	59,756,009	(44.15)
Vocational Education Instruction	1,103,878	1,969,214	(43.94)	1,023,949	1,864,160	(45.07)
Special Education Instruction	16,009,407	26,220,888	(38.94)	514,109	11,189,107	(95.41)
Instructional Support Services	5,232,628	7,986,044	(34.48)	3,728,707	6,575,495	(43.29)
Pupil Support Services	7,365,680	8,298,726	(11.24)	7,286,397	8,155,715	(10.66)
Sites and Buildings	10,036,066	9,513,196	5.50	8,811,528	8,128,741	8.40
Fiscal and Other Fixed Cost Programs	273,087	345,496	(20.96)	273,087	345,496	(20.96)
Food Service	4,539,108	4,821,928	(5.87)	(22,025)	265,438	(108.30)
Community Service	6,108,949	7,296,333	(16.27)	544,733	1,599,587	(65.95)
Interest and Fiscal Charges on Long-Term Liabilities	3,226,854	3,874,992	(16.73)	3,226,854	3,874,992	(16.73)
Total	<u>\$ 99,846,998</u>	<u>\$ 146,770,071</u>	(31.97)	<u>\$ 63,559,507</u>	<u>\$ 108,133,352</u>	(41.22)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's financial position is the product of many factors. The District continues to budget revenues conservatively and implements tight expenditure controls. Board of Education Policy establishes an unassigned fund balance level that equals a one-month operating reserve.

Overall the District's total governmental fund balances decreased by \$15,634,312 for the year ended June 30, 2019. This is primarily a result of a refunding of debt, as previously referenced in the Financial Highlights section.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND

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

Approximately 97% 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. 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 in each of the last five years.

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

Grade	2015	2016	2017	2018	2019
EC	118	135	144	136	149
HK	98	96	103	121	123
Kdgt.	574	582	556	559	557
1-3	2,003	2,068	2,097	2,062	2,032
4-6	1,742	1,859	2,001	2,077	2,111
7-12	3,324	3,422	3,604	3,613	3,681
Total E-12 ADM	7,859	8,162	8,505	8,568	8,654
ADM Change	214	303	343	63	86
Percent Change	2.80%	3.86%	4.20%	0.74%	1.00%

As depicted in Table A-4, average daily membership has increased steadily over the last five years. Current space limitations at many of the school sites, coupled with continued growth in the enrollment forecast, has the District evaluating future space expansion.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

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)	Percent Change
Local Sources:				
Property Taxes	\$ 16,712,099	\$ 13,214,662	\$ 3,497,437	26.5 %
Earnings on Investments	268,224	193,421	74,803	38.7
Other	2,854,139	2,608,974	245,165	9.4
State Sources	82,568,444	79,308,887	3,259,557	4.1
Federal Sources	3,617,731	3,527,857	89,874	2.5
Total General Fund Revenue	<u>\$ 106,020,637</u>	<u>\$ 98,853,801</u>	<u>\$ 7,166,836</u>	7.2

Total General Fund Revenue increased by \$7,166,836 or 7.2% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. 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		Change	
	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Salaries	\$ 63,191,188	\$ 60,005,017	\$ 3,186,171	5.3 %
Employee Benefits	24,691,296	22,618,059	2,073,237	9.2
Purchased Services	10,584,894	10,833,515	(248,621)	(2.3)
Supplies and Materials	3,756,164	3,625,690	130,474	3.6
Capital Expenditures	3,041,800	5,343,272	(2,301,472)	(43.1)
Other Expenditures	1,296,451	1,536,848	(240,397)	(15.6)
Total Expenditures	<u>\$ 106,561,793</u>	<u>\$ 103,962,401</u>	<u>\$ 2,599,392</u>	2.5

Total General Fund Expenditures increased \$2,599,392 or 2.5% from the previous year.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

The total fund balance at June 30, 2019, is \$9,023,883. Of this amount \$4,245,684 is restricted for specific purposes by state requirements; \$690,000 is assigned for severance.

In our analysis of significant variances between original and final budget amounts and between final budget amounts and actual results in the General Fund, there are no variances in revenues or expenditures that will have a significant effect on future services or liquidity. The positive budgetary fluctuation in state aid revenues is due to the District's conservative approach in budgeting state aids in the current economic environment. The significant positive budgetary fluctuation in other revenues was primarily due to the District receiving approximately \$586,000 more in medical assistance payments than what was anticipated.

Food Service Fund

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

The Food Service Fund Balance at June 30, 2019 is \$1,687,357, an increase of \$539,824 from June 30, 2018.

Food Service Fund Revenues for the year ended June 30, 2018 totaled \$4,588,945. This was an increase of \$11,265 or 0.2% from the year ended June 30, 2018.

Food Service Fund Expenditures for the year ended June 30, 2019 totaled \$4,417,974. This was a decrease of \$231,975 or 5.0% from the year ended June 30, 2018. Most of the decrease in expenditures relate to savings in salaries and employee benefits due to the change in recording of expenditures charged back to the food service fund from the general fund.

Community Service Fund

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

The Community Service Fund Balance at June 30, 2019 is \$1,173,214, a decrease of \$342,569 from June 30, 2018.

Community Service Fund Revenues and Other Financing Sources for the year ended June 30, 2019 totaled \$6,551,352. This was an increase of \$38,812 or 0.6% from the year ended June 30, 2018. This increase is largely due the net effect of an increase in property taxes, issuances of capital leases, and transfers in, which were partially offset by a decrease in Federal sources.

Community Service Fund Expenditures for the year ended June 30, 2019 totaled \$6,761,629. This was an increase of \$90,834 or 1.4% from the year ended June 30, 2018. This increase is related to additional salaries and benefits expenditures due to employment settlements and new program offerings.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2019, the District had invested almost \$174.8 million in a broad range of capital assets, including school buildings, athletic facilities, computer, and audio-visual equipment. (See Table A-7.) (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was \$5,609,384.

**Table A-7
Capital Assets**

	2019	2018	Percentage Change
Land	\$ 6,710,561	\$ 6,710,561	-
Construction in Progress	-	514,121	(100.0)
Land Improvements	11,234,912	10,969,127	2.4
Buildings and Improvements	143,302,659	142,259,693	0.7
Equipment	13,547,047	13,054,106	3.8
Less: Accumulated Depreciation	(61,489,803)	(55,880,419)	10.0
Total District Capital Assets	<u>\$ 113,305,376</u>	<u>\$ 117,627,189</u>	(3.7)

Debt Service Fund

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

The balance of \$1,434,449 as of June 30, 2019 was a decrease of \$14,994,379 from fund balance as of June 30, 2018 because the majority of the 2008A G.O. School Building Bonds met their crossover refunding date in fiscal year 2019 and were paid out of the refunding escrow cash from the 2015B and 2016A G.O. Crossover Refunding Bonds. The fund balance amount along with the payable 2018 levy and state aid is sufficient to make pending principal and interest payments.

Bond Rating

The District's general obligation bonds carry ratings of Aa2.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
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 \$87,670,546 in general obligation bonds, bond premium/discount and lease purchase agreements. The District's long-term liabilities also include severance and wellness benefits payable, compensated absences payable, the District's net pension liability, and the District's net OPEB liability.

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

	2019	2018	Percentage Change
General Obligation Bonds	\$ 82,945,000	\$ 104,060,000	(20.3)%
Net Bond Premium and Discount	3,431,657	3,787,799	(9.4)
Capital Leases Payable	1,293,889	1,851,091	(30.1)
Severance and Wellness Benefits Payable	3,730,124	3,826,610	(2.5)
Compensated Absences Payable	658,443	657,915	0.1
Net Pension Liability	66,306,827	180,568,345	(63.3)
Net OPEB Liability	8,219,667	7,810,640	5.2
Total Long-Term Liabilities	<u>\$ 166,585,607</u>	<u>\$ 302,562,400</u>	(44.9)
Long-Term Liabilities:			
Due Within One Year	\$ 7,405,400	\$ 22,810,605	
Due in More Than One Year	84,653,713	91,372,810	
Net Pension Liability	66,306,827	180,568,345	
Net OPEB Liability	8,219,667	7,810,640	
Total	<u>\$ 166,585,607</u>	<u>\$ 302,562,400</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 77, 10 Civic Center Plaza, Suite One, Mankato, Minnesota 56001.

BASIC FINANCIAL STATEMENTS

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF NET POSITION
JUNE 30, 2019**

ASSETS

Cash and Investments	\$ 22,010,490
Receivables:	
Property Taxes	14,139,903
Other Governments	12,794,360
Other	157,493
Prepaid Items	-
Inventories	80,132
Capital Assets:	
Land and Construction in Progress	6,710,561
Other Capital Assets, Net of Depreciation	106,594,815
Total Assets	<u>162,487,754</u>

DEFERRED OUTFLOWS OF RESOURCES

Losses on Debt Refunding	38,029
Pension Related	83,308,206
Other Postemployment Benefits Related	969,463
Total Deferred Outflows	<u>84,315,698</u>

LIABILITIES

Salaries Payable	6,040,602
Accounts and Contracts Payable	2,305,938
Accrued Interest	1,207,931
Unearned Revenue	326,836
Long-Term Liabilities:	
Other Long-Term Liabilities Due Within One Year	7,405,400
Other Long-Term Liabilities Due in More Than One Year	84,653,713
Net Pension Liability	66,306,827
Net OPEB Liability	8,219,667
Total Liabilities	<u>176,466,914</u>

DEFERRED INFLOWS OF RESOURCES

Property Taxes Levied for Subsequent Year	26,724,764
Gains on Debt Refunding	86,791
OPEB Related	991,244
Pension Related	100,235,081
Total Deferred Inflows of Resources	<u>128,037,880</u>

NET POSITION

Net Investment in Capital Assets	34,373,008
Restricted for:	
Operating Capital Purposes	20,421
State-Mandated Reserves	4,225,263
Food Service	1,687,357
Community Service	1,183,385
Unrestricted	(99,190,776)
Total Net Position	<u>\$ (57,701,342)</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

Functions	Expenses	Program Revenues			Net (Expense)	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Position	
					Total Governmental Activities	
GOVERNMENTAL ACTIVITIES						
Administration	\$ 2,754,657	\$ 1,025	\$ (123,374)	\$ 459	\$ (2,876,547)	
District Support Services	1,939,143	-	(1,910)	16,253	(1,924,800)	
Regular Instruction	41,257,541	683,653	6,669,776	533,291	(33,370,821)	
Vocational Education Instruction	1,103,878	-	79,929	-	(1,023,949)	
Special Education Instruction	16,009,407	-	15,495,003	295	(514,109)	
Instructional Support Services	5,232,628	56,752	1,027,791	419,378	(3,728,707)	
Pupil Support Services	7,365,680	-	74,363	4,920	(7,286,397)	
Sites and Buildings	10,036,066	43,136	651,212	530,190	(8,811,528)	
Fiscal and Other Fixed Cost Programs	273,087	-	-	-	(273,087)	
Food Service	4,539,108	1,775,874	2,785,259	-	22,025	
Community Service	6,108,949	3,428,634	2,135,582	-	(544,733)	
Interest and Fiscal Charges on Long-Term Liabilities	3,226,854	-	-	-	(3,226,854)	
Total School District	<u>\$ 99,846,998</u>	<u>\$ 5,989,074</u>	<u>\$ 28,793,631</u>	<u>\$ 1,504,786</u>	<u>(63,559,507)</u>	
GENERAL REVENUES						
Property Taxes Levied for:						
General Purposes						16,748,719
Community Service						814,024
Debt Service						9,420,039
State Aid Not Restricted to Specific Purposes						59,297,496
Earnings on Investments						630,553
Miscellaneous						95,655
Total General Revenues						<u>87,006,486</u>
CHANGE IN NET POSITION						23,446,979
Net Position - Beginning						(81,016,029)
Prior Period Adjustment - See Note 14						(132,292)
Net Position - Beginning, as Restated						<u>(81,148,321)</u>
NET POSITION - ENDING						<u>\$ (57,701,342)</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2019**

	Major Funds					Total Governmental Funds 2019	
	General	Food Service	Community Service	Capital Projects	Debt Service	OPEB Debt Service	
ASSETS							
Cash and Investments	\$ 12,156,325	\$ 1,588,589	\$ 1,650,681	\$ -	\$ 5,579,687	\$ 716,724	\$ 21,692,006
Cash with Fiscal Agent	-	-	-	-	-	-	-
Receivables:							
Current Property Taxes	8,719,000	-	413,952	-	4,245,861	468,324	13,847,137
Delinquent Property Taxes	174,648	-	10,171	-	91,591	16,356	292,766
Accounts and Interest Receivable	93,455	921	63,117	-	-	-	157,493
Due from Minnesota Department of Education	8,840,509	682	130,608	-	18,993	495	8,991,287
Due from Federal through Minnesota Department of Education	3,598,078	72,383	132,612	-	-	-	3,803,073
Inventory	-	80,132	-	-	-	-	80,132
Total Assets	<u>\$ 33,582,015</u>	<u>\$ 1,742,707</u>	<u>\$ 2,401,141</u>	<u>\$ -</u>	<u>\$ 9,936,132</u>	<u>\$ 1,201,899</u>	<u>\$ 48,863,894</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE							
Liabilities:							
Salaries and Compensated Absences Payable	\$ 2,092,595	\$ 22,981	\$ 169,307	\$ -	\$ -	\$ -	\$ 2,284,883
Payroll Deductions and Employer Contributions Payable	3,755,719	-	-	-	-	-	3,755,719
Accounts and Contracts Payable	1,899,797	2,868	14,050	-	-	-	1,916,715
Unearned Revenue	95,777	29,501	201,558	-	-	-	326,836
Total Liabilities	<u>7,843,888</u>	<u>55,350</u>	<u>384,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,284,153</u>
Deferred Inflows of Resources:							
Unavailable Revenue - Property Taxes Levied for Subsequent Year	16,539,597	-	832,841	-	8,410,092	942,234	26,724,764
Unavailable Revenue - Delinquent Property Taxes	174,647	-	10,171	-	91,591	16,356	292,765
Total Deferred Inflows of Resources	<u>16,714,244</u>	<u>-</u>	<u>843,012</u>	<u>-</u>	<u>8,501,683</u>	<u>958,590</u>	<u>27,017,529</u>
Fund Balance:							
Nonspendable:							
Inventory	-	80,132	-	-	-	-	80,132
Restricted for:							
Staff Development	455,299	-	-	-	-	-	455,299
Operating Capital	20,421	-	-	-	-	-	20,421
Learning and Development	5,927	-	-	-	-	-	5,927
Early Childhood and Family Education	-	-	857,386	-	-	-	857,386
Teacher Development and Evaluation	25,842	-	-	-	-	-	25,842
School Readiness	-	-	589,177	-	-	-	589,177
Adult Basic Education	-	-	142,511	-	-	-	142,511
LTFM	520,300	-	-	-	-	-	520,300
Medical Assistance	3,217,895	-	-	-	-	-	3,217,895
Restricted for Other Purposes:							
Food Service	-	1,607,225	-	-	-	-	1,607,225
Debt Service	-	-	-	-	1,434,449	-	1,434,449
OPEB Debt Service	-	-	-	-	-	243,309	243,309
Assigned for:							
Separation/Retirement Benefits	690,000	-	-	-	-	-	690,000
Unassigned	4,088,199	-	(415,860)	-	-	-	3,672,339
Total Fund Balance	<u>9,023,883</u>	<u>1,687,357</u>	<u>1,173,214</u>	<u>-</u>	<u>1,434,449</u>	<u>243,309</u>	<u>13,562,212</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 33,582,015</u>	<u>\$ 1,742,707</u>	<u>\$ 2,401,141</u>	<u>\$ -</u>	<u>\$ 9,936,132</u>	<u>\$ 1,201,899</u>	<u>\$ 48,863,894</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balance for Governmental Funds	\$ 13,562,212
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	6,710,561
Construction in Progress	-
Land Improvements, Net of Accumulated Depreciation	7,519,879
Buildings and Improvements, Net of Accumulated Depreciation	92,654,321
Equipment, Net of Accumulated Depreciation	6,420,615
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unearned revenue in the funds.	292,765
When a bond defeasance occurs the difference between the amount paid to the refunded bond escrow and the principal of the defeased debt is expensed in the governmental funds. These expenditures are capitalized on the statement of net position as deferred charges.	
Losses on Debt Refunding	38,029
Gains on Debt Refunding	(86,791)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.	(1,207,931)
The District's OPEB liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:	
Net OPEB Liability	(8,219,667)
Deferred Inflows of Resources - Other Post Employment Benefits	(991,244)
Deferred Outflows of Resources - Other Post Employment Benefits	969,463
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	(66,306,827)
Deferred Inflows of Resources - Pensions	(100,235,081)
Deferred Outflows of Resources - Pensions	83,308,206
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	(82,945,000)
Unamortized Premiums	(3,431,657)
Capital Leases Payable	(1,293,889)
Severance and Health Benefits Payable	(3,730,124)
Compensated Absences Payable	(658,443)
Internal service funds are used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position at year-end is:	<u>(70,739)</u>
Total Net Position of Governmental Activities	\$ <u>(57,701,342)</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019**

	Major Funds						Total
	General	Food Service	Community Service	Capital Projects	Debt Service	OPEB Debt Service	Governmental Funds 2019
REVENUES							
Local Sources:							
Property Taxes	\$ 16,712,099	\$ -	\$ 813,319	\$ -	\$ 8,465,809	\$ 943,268	\$ 26,934,495
Earnings and Investments	268,224	27,812	33,503	6,800	281,178	12,909	630,426
Other	2,854,139	1,779,287	3,785,596	-	-	-	8,419,022
State Sources	82,568,444	231,831	1,647,975	-	189,935	4,952	84,643,137
Federal Sources	3,617,731	2,550,015	218,899	-	-	-	6,386,645
Total Revenues	<u>106,020,637</u>	<u>4,588,945</u>	<u>6,499,292</u>	<u>6,800</u>	<u>8,936,922</u>	<u>961,129</u>	<u>127,013,725</u>
EXPENDITURES							
Current:							
Administration	3,625,972	-	-	-	-	-	3,625,972
District Support Services	1,977,926	-	-	-	-	-	1,977,926
Elementary and Secondary Regular Instruction	51,541,333	-	-	-	-	-	51,541,333
Vocational Education Instruction	1,566,580	-	-	-	-	-	1,566,580
Special Education Instruction	21,411,230	-	-	-	-	-	21,411,230
Instructional Support Services	5,712,035	-	-	-	-	-	5,712,035
Pupil Support Services	7,992,523	-	-	-	-	-	7,992,523
Sites and Buildings	8,662,300	-	-	-	-	-	8,662,300
Fiscal and Other Fixed Cost Programs	273,087	-	-	-	-	-	273,087
Food Service	-	4,349,676	-	-	-	-	4,349,676
Community Service	-	-	6,736,551	-	-	-	6,736,551
Capital Outlay	3,041,800	68,298	21,010	6,800	-	-	3,137,908
Debt Service:							
Principal	685,109	-	4,068	-	4,855,000	880,000	6,424,177
Interest and Fiscal Charges	71,898	-	-	-	3,696,301	88,223	3,856,422
Total Expenditures	<u>106,561,793</u>	<u>4,417,974</u>	<u>6,761,629</u>	<u>6,800</u>	<u>8,551,301</u>	<u>968,223</u>	<u>127,267,720</u>
EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(541,156)	170,971	(262,337)	-	385,621	(7,094)	(253,995)
OTHER FINANCING SOURCES (USES)							
Proceeds from Capital Lease	116,976	-	14,999	-	-	-	131,975
Payment to Refunded Bond Escrow Agent	-	-	-	-	(15,380,000)	-	(15,380,000)
Transfers In	-	368,853	37,061	-	-	-	405,914
Transfers Out	(405,914)	-	-	-	-	-	(405,914)
Total Other Financing Sources (Uses)	<u>(288,938)</u>	<u>368,853</u>	<u>52,060</u>	<u>-</u>	<u>(15,380,000)</u>	<u>-</u>	<u>(15,248,025)</u>
NET CHANGE IN FUND BALANCE	(830,094)	539,824	(210,277)	-	(14,994,379)	(7,094)	(15,502,020)
FUND BALANCE							
Beginning of Year	9,853,977	1,147,533	1,515,783	-	16,428,828	250,403	29,196,524
Prior Period Adjustment - See Note 14	-	-	(132,292)	-	-	-	(132,292)
Fund Balance - Beginning, as Restated	<u>9,853,977</u>	<u>1,147,533</u>	<u>1,383,491</u>	<u>-</u>	<u>16,428,828</u>	<u>250,403</u>	<u>29,064,232</u>
End of Year	<u>\$ 9,023,883</u>	<u>\$ 1,687,357</u>	<u>\$ 1,173,214</u>	<u>\$ -</u>	<u>\$ 1,434,449</u>	<u>\$ 243,309</u>	<u>\$ 13,562,212</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
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**

Net Change in Fund Balance - Total Governmental Funds \$ (15,502,020)

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	1,287,571
Depreciation Expense	(5,609,384)

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 reduced the lease obligation in the statement of net position.

Other Financing Source - Capital Lease	(131,975)
Change in Accrued Interest Expense - Capital Lease	265
Principal Payments - Capital Leases	689,177

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unearned in the governmental funds.	48,287
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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.	21,927,579
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In the statement of activities, certain operating expenses - severance benefits and compensated absences - are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amounts actually paid).	95,958
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In the statement of activities, OPEB expenses are measured by the change in the net OPEB asset or liability. In the governmental funds, however, expenditures for this obligation are measured by the amount of financial resources paid to the District's irrevocable OPEB trust.	(1,038,161)
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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:

Payment to Refunded Bond Escrow Agent	15,380,000
Repayment of Bond Principal	5,735,000
Change in Accrued Interest - General Obligation Bonds	368,244
Amortization of Bond Premium	264,963
Amortization of Deferred Charges on Refunding Bonds	(3,904)

Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net revenue of the internal service funds is reported with governmental activities.	(64,621)
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Total	\$ 23,446,979
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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 16,761,290	\$ 16,802,193	\$ 16,712,099	\$ (90,094)
Earnings and Investments	190,000	270,000	268,224	(1,776)
Other	1,699,100	1,958,600	2,854,139	895,539
State Sources	81,394,539	81,717,094	82,568,444	851,350
Federal Sources	3,502,934	3,502,934	3,617,731	114,797
Total Revenues	<u>103,547,863</u>	<u>104,250,821</u>	<u>106,020,637</u>	<u>1,769,816</u>
EXPENDITURES				
Current:				
Administration	3,401,402	3,416,278	3,625,972	209,694
District Support Services	1,974,886	1,920,297	1,977,926	57,629
Elementary and Secondary Regular Instruction	48,553,446	48,788,541	51,541,333	2,752,792
Vocational Education Instruction	1,204,798	1,510,093	1,566,580	56,487
Special Education Instruction	21,379,904	21,413,371	21,411,230	(2,141)
Instructional Support Services	5,807,300	5,884,724	5,712,035	(172,689)
Pupil Support Services	7,666,842	7,843,183	7,992,523	149,340
Sites and Buildings	7,779,936	7,776,397	8,662,300	885,903
Fiscal and Other Fixed Cost Programs	1,235,283	1,235,283	273,087	(962,196)
Capital Outlay	3,823,448	3,826,746	3,041,800	(784,946)
Debt Service:				
Principal	561,599	561,599	685,109	123,510
Interest and Fiscal Charges	63,474	63,474	71,898	8,424
Total Expenditures	<u>103,452,318</u>	<u>104,239,986</u>	<u>106,561,793</u>	<u>2,321,807</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	95,545	10,835	(541,156)	(551,991)
OTHER FINANCING SOURCES (USES)				
Issuance of Capital Loans	-	-	116,976	116,976
Transfers Out	-	-	(405,914)	(405,914)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(288,938)</u>	<u>(288,938)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 95,545</u>	<u>\$ 10,835</u>	(830,094)	<u>\$ (840,929)</u>
FUND BALANCE				
Beginning of Year			<u>9,853,977</u>	
End of Year			<u>\$ 9,023,883</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – 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	\$ 10,000	\$ 10,000	\$ 27,812	\$ 17,812
Other - Primarily Meal Sales	1,823,800	1,823,800	1,779,287	(44,513)
State Sources	218,000	218,000	231,831	13,831
Federal Sources	2,577,200	2,577,200	2,550,015	(27,185)
Total Revenues	<u>4,629,000</u>	<u>4,629,000</u>	<u>4,588,945</u>	<u>(40,055)</u>
EXPENDITURES				
Current:				
Food Service	4,804,128	4,804,128	4,349,676	(454,452)
Capital Outlay	145,000	145,000	68,298	(76,702)
Total Expenditures	<u>4,949,128</u>	<u>4,949,128</u>	<u>4,417,974</u>	<u>(531,154)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(320,128)	(320,128)	170,971	491,099
OTHER FINANCING SOURCES				
Transfers In	-	-	368,853	368,853
NET CHANGE IN FUND BALANCE	<u>\$ (320,128)</u>	<u>\$ (320,128)</u>	539,824	<u>\$ 859,952</u>
FUND BALANCE				
Beginning of Year			1,147,533	
End of Year			<u>\$ 1,687,357</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – 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	\$ 923,134	\$ 814,036	\$ 813,319	\$ (717)
Earnings and Investments	-	30,000	33,503	3,503
Other - Primarily Tuition and Fees	3,941,153	3,899,343	3,785,596	(113,747)
State Sources	1,623,809	1,688,960	1,647,975	(40,985)
Federal Sources	358,342	330,721	218,899	(111,822)
Total Revenues	<u>6,846,438</u>	<u>6,763,060</u>	<u>6,499,292</u>	<u>(263,768)</u>
EXPENDITURES				
Current:				
Community Service	7,408,100	7,480,797	6,736,551	(744,246)
Capital Outlay	23,500	18,985	21,010	2,025
Debt Service	-	-	4,068	4,068
Total Expenditures	<u>7,431,600</u>	<u>7,499,782</u>	<u>6,761,629</u>	<u>(738,153)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(585,162)	(736,722)	(262,337)	474,385
OTHER FINANCING SOURCES				
Issuance of Capital Leases	-	-	14,999	14,999
Transfers In	-	-	37,061	37,061
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>52,060</u>	<u>52,060</u>
NET CHANGE IN FUND BALANCE	<u>\$ (585,162)</u>	<u>\$ (736,722)</u>	(210,277)	<u>\$ 526,445</u>
FUND BALANCE				
Beginning of Year			1,515,783	
Prior Period Adjustment - See Note 14			(132,292)	
Fund Balance - Beginning, as Restated			<u>1,383,491</u>	
End of Year			<u>\$ 1,173,214</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 77
 STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2019**

	Governmental Activities - Internal Service Funds
	2019
ASSETS	
Cash and Investments	\$ 318,484
LIABILITIES	
Claims Payable for Dental Benefits	389,223
NET POSITION	
Unrestricted	\$ (70,739)

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019**

	Governmental Activities - Internal Service Funds <hr/> 2019 <hr/>
OPERATING REVENUES	
Charges for Services:	
Dental Insurance Premiums	\$ 703,406
OPERATING EXPENSES	
Dental Insurance Claim Payments	712,945
General Administration Fees	55,209
Total Operating Expenses	<hr/> 768,154 <hr/>
OPERATING LOSS	(64,748)
NONOPERATING INCOME	
Earnings on Investments	<hr/> 127 <hr/>
CHANGE IN NET POSITION	(64,621)
Net Position - Beginning	<hr/> (6,118) <hr/>
NET POSITION - ENDING	<hr/> \$ (70,739) <hr/>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019**

	Governmental Activities - Internal Service Funds <hr/> 2019
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Interfund Services Provided	\$ 703,406
Payments for Administrative Costs	(55,209)
Payments for Retirement Benefits	(664,926)
Net Cash Used by Operating Activities	<hr/> (16,729)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<hr/> 127
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (16,602)
 Cash and Cash Equivalents - Beginning	 335,086
 CASH AND CASH EQUIVALENTS - ENDING	 <hr/> \$ 318,484 <hr/>
 Displayed on the Statement of Net Position as:	
Cash and Cash Equivalents	 <hr/> \$ 318,484 <hr/>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (64,748)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Increase in Claims Payable	48,019
Net Cash Used by Operating Activities	<hr/> \$ (16,729) <hr/>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

	Private-Purpose Trust	OPEB Trust	Agency Funds
ASSETS			
Cash and Investments	\$ 75,272	\$ 12,761,919	\$ 936,475
Accounts Receivable	-	338	39,321
Total Assets	<u>75,272</u>	<u>12,762,257</u>	<u>\$ 975,796</u>
LIABILITIES			
Salaries and Payroll Deductions Payable	-	-	\$ 507
Accounts Payable and Due to Other Governments	-	-	975,289
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 975,796</u>
NET POSITION			
Restricted for Payment of OPEB Benefits	-	12,762,257	
Restricted for Scholarships and Other Purposes	75,272	-	
Total Net Position	<u>\$ 75,272</u>	<u>\$ 12,762,257</u>	

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2019**

	Private-Purpose Trust	OPEB Trust
ADDITIONS		
Gifts and Donations	\$ 24,124	\$ -
Employer Contributions	-	342,922
Earnings on Investments	-	909,799
Total Additions	<u>24,124</u>	<u>1,252,721</u>
DEDUCTIONS		
Scholarships Awarded	30,732	-
Retirement Benefits	-	1,057,969
Administrative Costs	-	44,426
Total Deductions	<u>30,732</u>	<u>1,102,395</u>
CHANGE IN NET POSITION	(6,608)	150,326
Net Position - Beginning of Year	<u>81,880</u>	<u>12,611,931</u>
NET POSITION - END OF YEAR	<u>\$ 75,272</u>	<u>\$ 12,762,257</u>

See accompanying Notes to Financial Statements.

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
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. 77 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. 77 (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 include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds 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. However, in accordance with Minnesota state statutes, the District's Board of Education has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational, or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Depreciation 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, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fiduciary funds are presented in the fiduciary fund financial statements by type; private-purpose trust, employee benefit trust, and agency fund. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

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

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and 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.

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
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

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, and health and safety projects.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund are generated from user fees, federal reimbursements, and state aids.

Community Service Special Revenue Fund – The Community Service 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 Fund are generated primarily from user fees, local property taxes, state credits, and federal reimbursements.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for and the payment of, bond and loan principal, interest, and related costs.

OPEB Debt Service Fund – The Other Postemployment Benefit (OPEB) Debt Service Fund accounts for the accumulation of resources for and the payment of, bond principal, interest, and other costs related to the Other Post Employment Benefit Bonds.

Proprietary Fund

Internal Service Fund – The Internal Service Fund accounts for financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accounts for the District's dental self-insurance program.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Fiduciary Funds

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

OPEB Trust Fund – The Other Post Employment Benefit (OPEB) Trust Fund is used to account for resources set aside and held in an irrevocable trust arrangement to pay Other Postemployment Benefits. District contributions to this fund must be expensed to an operating fund.

Agency Fund – The Agency Fund is established to account for resources held for others in a custodial capacity. The District's Agency Fund is used to account for the resources of All Season's Arena.

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 of 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
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, money market funds, U.S. Treasury bonds, and federal agency bonds. Cash and investments held in trust and agency funds consist of interest bearing deposits, money market funds, and mutual funds. Cash balances from all funds, except the construction, trust and agency 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. Cash and Investments Held by Fiscal Agent

At June 30, 2019, the District did not have any cash and investments held by fiscal agent. At June 30, 2018, the cash and investment held by fiscal agent consisted of cash and cash equivalents, United States Treasury, Federal National Mortgage Association, and Federal Home Loan Bank securities held by an escrow agent for the purpose of refunding the General Obligation School Building Bonds, Series 2008A (see Note 4). These assets were sufficient to meet the debt service on the General Obligation Crossover Refunding Bonds, Series 2015B and 2016A through the February 1, 2019 call date on the General Obligation School Building Bonds of 2008A.

H. Receivables

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

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 U.S. Department of Agriculture.

J. 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

Taxes are generally due on May 15 and October 15 and counties generally remit taxes to Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

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 Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with state law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy, which is frozen at \$751,973, for the District. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

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 a deferred inflow of resources because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2019, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The District maintains a threshold level of \$4,000 for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

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

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.

L. Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The District has three items that qualify for reporting as this element. The first relates to losses on refunding of certain bond issuances of the District which will be recognized over the shorter of the remaining years to maturity of the old bonds or the years to maturity of the related refunding bonds. The second relates to pension related deferred outflows of resources will be recognized as expenditures in subsequent years. The third relates to other postemployment benefits related deferred outflows of resources will be recognized as expenditures in subsequent years.

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Pensions

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

O. Accrued Employee Benefits

Vacation Pay and Sick Leave

Employees earn annual vacation pay at rates dependent upon each employee group labor contract. At June 30, certain employee groups may carry forward up to one year of unpaid vacation. The expenditure for vacation pay is recognized when payment is made.

Substantially all District employees are entitled to sick leave at various rates. For certain eligible employees, unused sick leave is converted to wellness units which are used to calculate severance pay upon termination.

Severance and Wellness Benefits Payable

Upon leaving the employment of the District, employees meeting years of service and age requirements receive reimbursement for unused wellness credits, sick days, or vacation days. Employees are compensated for each unused credit or day at a set reimbursement rate, with the maximum severance benefit specified in the employment contract. A liability is recorded for all eligible employees.

The District budgets for payment of severance benefits for the ensuing year when it anticipates the retirement of personnel requiring severance payments. The payment of severance benefits is recorded as a current expenditure in the year of the payment. Expenditures for severance pay made in 2019 were \$667,068. A liability for severance and wellness benefits payable totaling \$3,730,124 is recorded in the Statement of Net Position.

P. Net Other Postemployment Benefits Liability

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trust Fund and additions to/deductions from OPEB Trust Fund's fiduciary net position have been determined on the same basis as they are reported by OPEB Trust Fund. For this purpose, OPEB Trust Fund recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. See Note 9 for further information.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance relate to inventories and prepaid items. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Superintendent and Director of Business Services to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

The District has a minimum fund balance policy, which identifies a minimum unassigned or restricted for other purposes fund balance of one month's expenditures in each of its funds.

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 five types of deferred inflows of resources. 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 of deferred outflow is pension related as discussed in Note 7. The fourth relates to gains on refunding of certain bond issuances of the District which will be recognized over the shorter of the remaining years to maturity of the old bonds or the years to maturity of the related refunding bonds. The fifth relates to other postemployment benefits related deferred inflows of resources will be recognized as expenditures in subsequent years.

S. Unearned Revenues

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The General Fund reported unearned revenue for grant revenues. In the Food Service Fund, fees collected for student meals not used are classified as unearned. In the Community Service Fund, the District reported unearned revenues related to prepaid student and community courses.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all demand accounts and savings accounts related to the Internal Service Fund to be cash and cash equivalents. Cash and cash equivalents are included in cash and investments.

U. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the District-wide, proprietary fund, 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.

NOTE 2 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 will not be returned in full. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

The District maintains a cash and investment pool that is available for use by all governmental and proprietary 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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 entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

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

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

In addition, investments held in the OPEB Trust Fund may be invested as authorized by Minnesota state statute section 356A.06, Subdivision 7.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

Investments Measured at Fair Value	Fair Value
Mutual Funds	\$ 12,733,591
First Amer Govt Oblig Fund CI Z	28,328
Total Investments at Fair Value	\$ 12,761,919
Investments Measured at Amortized Cost	Amortized Cost
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 1,951,049
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	16,275,746
Total Investments at Amortized Cost	\$ 18,226,795

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC). The Plus Class has no redemption requirements. The Max Class may not be redeemed for at least 14 days, and a 24-hour hold is placed on redemption requests. Redemption prior to 14 days may be subject to penalty.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Credit risk related to the District's investments is as follows:

	Credit Risk
Mutual Funds	NR
First Amer Govt Oblig Fund CI Z	AAAm
MSDMAX	AAAm
MSDLAF+	AAAm

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk

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

As of June 30, 2019, the District's investments have the following maturities:

Type	Total	Maturity Duration in Years		
		Less Than 1	1 to 2	2 to 5
Mutual Funds	\$ 12,733,591	\$ 12,733,591	\$ -	\$ -
MSDMAX	1,951,049	1,951,049	-	-
MSDLAF+	16,275,746	16,275,746	-	-
First Amer Govt Oblig Fund CI Z	28,328	28,328	-	-
Total	<u>\$ 30,988,714</u>	<u>\$ 30,988,714</u>	<u>\$ -</u>	<u>\$ -</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2019, all investments and collateral were listed in the name of the District.

Concentration of Credit Risk

The District does not have a formal policy limiting the amount of the total portfolio that may be invested with any one depository. The Investment Committee is responsible for investment decisions and activities under the direction of the Board of Education. The following is a list of investments which individually comprise more than 5% of the District's total investments:

Investment Type	Percentage
Mutual Fund - PFM Multi Manager Domestic Equity	8.24%
Mutual Fund - PFM Multi Manager International	4.14%
Mutual Fund - PFM Multi Manager Fixed Income Fund	28.71%
Mutual Fund - First Amer Govt Oblig Fund CI Z	0.09%
MSDMAX	6.30%
MSDLAF+	52.52%

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

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

Deposits	\$ 4,785,252
Cash on Hand	10,190
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	1,951,049
Minnesota School District Liquid Asset Plus (MSDLAF+)	16,275,746
Mutual Funds	12,733,591
First Amer Govt Oblig Fund CI Z	28,328
	<u>\$ 35,784,156</u>
Cash and Investments - Statement of Net Position	\$ 22,010,490
Cash and Investments - Statement of Fiduciary Net Position	13,773,666
Total Cash and Investments	<u>\$ 35,784,156</u>

D. Fair Value Measurements

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Fair Value Measurements (Continued)

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

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

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

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

Assets measured at fair value on a recurring basis:

Investment	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ -	\$ 12,733,591	\$ -	\$ 12,733,591
First Amer Govt Oblig Cl Z	-	28,328	-	28,328
Total	<u>\$ -</u>	<u>\$ 12,761,919</u>	<u>\$ -</u>	<u>\$ 12,761,919</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 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	\$ 6,710,561	\$ -	\$ -	\$ 6,710,561
Construction in Progress	514,121	1,270,759	(1,784,880)	-
Total Capital Assets, Not Being Depreciated	<u>7,224,682</u>	<u>1,270,759</u>	<u>(1,784,880)</u>	<u>6,710,561</u>
Capital Assets, Being Depreciated				
Land Improvements	10,969,127	265,785	-	11,234,912
Buildings and Improvements	142,259,693	1,042,966	-	143,302,659
Equipment	13,054,106	492,941	-	13,547,047
Total Capital Assets, Being Depreciated	<u>166,282,926</u>	<u>1,801,692</u>	<u>-</u>	<u>168,084,618</u>
Accumulated Depreciation for:				
Land Improvements	(3,189,600)	(525,433)	-	(3,715,033)
Buildings and Improvements	(46,826,476)	(3,821,862)	-	(50,648,338)
Equipment	(5,864,343)	(1,262,089)	-	(7,126,432)
Total Accumulated Depreciation	<u>(55,880,419)</u>	<u>(5,609,384)</u>	<u>-</u>	<u>(61,489,803)</u>
Total Capital Assets, Being Depreciated, Net	<u>110,402,507</u>	<u>(3,807,692)</u>	<u>-</u>	<u>106,594,815</u>
Governmental Activities Capital Assets, Net	<u>\$ 117,627,189</u>	<u>\$ (2,536,933)</u>	<u>\$ (1,784,880)</u>	<u>\$ 113,305,376</u>

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

Governmental Activities	
Administration	\$ 27,895
District Support Services	4,990
Regular Instruction	5,057,147
Vocational Education Instruction	2,782
Special Education Instruction	4,890
Instructional Support Services	56,233
Pupil Support Services	46,392
Sites and Buildings	219,269
Food Service	160,695
Community Service	29,091
Total Depreciation Expense, Governmental Activities	<u>\$ 5,609,384</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

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

Issue Date	Net Interest Rate	Series Number	Original Issue	Maturities	Principal Outstanding	
					Due Within One Year	Total
8/7/2008	3.0% - 4.7%	2008A	\$ 33,350,000	2010-2021	\$ 1,920,000	\$ 3,415,000
9/15/2009	2.0% - 3.5%	2009B	4,060,000	2012-2021	460,000	940,000
2/19/2014	4.00%	2014A	69,500,000	2015-2034	2,350,000	55,930,000
1/22/2015	0.65% - 2.5%	2015A	3,680,000	2017-2026	355,000	2,660,000
11/5/2015	2.0% - 2.75%	2015B	6,140,000	2020-2029	40,000	6,140,000
3/29/2016	2.0%	2016A	9,700,000	2020-2027	80,000	9,700,000
6/30/2016	1.3% - 2.15%	2016B	5,040,000	2019-2024	885,000	4,160,000
Total General Obligation Bonds					<u>\$ 6,090,000</u>	<u>\$ 82,945,000</u>
Bond Premiums					\$ 259,255	\$ 3,431,657
Bond Discounts					-	-
Capital Leases Payable					332,270	1,293,889
Severance and Health Benefits Payable					164,198	3,730,124
Compensated Absences Payable					559,677	658,443
Total					<u>\$ 7,405,400</u>	<u>\$ 92,059,113</u>

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire General Obligation Bonds payable are as follows:

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2020	\$ 6,090,000	\$ 2,892,210
2021	6,350,000	2,683,225
2022	5,705,000	2,472,475
2023	5,965,000	2,299,545
2024	6,315,000	2,116,178
2025-2029	27,530,000	7,870,190
2030-2034	24,990,000	2,999,600
Total	<u>\$ 82,945,000</u>	<u>\$ 23,333,423</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities

General Obligation School Building Bonds, Series 2008A

On August 7, 2008, the District issued \$33,350,000 of General Obligation School Building Bonds, Series 2008A. The proceeds of the issue were used to finance the construction and betterment of various school sites and facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

General Obligation School Building Refunding Bonds, Series 2009B

On September 15, 2009, the District issued \$4,060,000 of General Obligation School Building Refunding Bonds, Series 2009B. The proceeds of the issue were used to refund the outstanding principal and interest of the District's General Obligation School Building Bonds, Series 2001A on February 1, 2011. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

General Obligation School Building Bonds, Series 2014A

On February 19, 2014, the District issued \$69,500,000 of General Obligation School Building Bonds, Series 2014A. The proceeds of the issue were used to finance the construction and betterment of various school sites and facilities. Assets of the Debt Service fund, together with scheduled ad valorem tax levies, are dedicated to retire these bonds.

General Obligation Crossover Refunding Bonds, Series 2015A

On January 22, 2015, the District issued \$3,680,000 of General Obligation Crossover Refunding Bonds, Series 2015A. The proceeds of the issue were used to refund the General Obligation School Building Bonds, Series 2006A, which were callable in February 2016. The new issue was issued at a premium of \$65,626. Assets of the Debt Service fund, together with scheduled ad valorem tax levies, are dedicated to retire these bonds.

General Obligation Crossover Refunding Bonds, Series 2015B

On November 5, 2015, the District issued \$6,140,000 of General Obligation Crossover Refunding Bonds, Series 2015B. The proceeds of the issue will be used to refund a portion of the General Obligation School Building Bonds, Series 2008A, which were callable in February 2019. The new issue was issued at a premium of \$75,686. Assets of the Debt Service fund, together with scheduled ad valorem tax levies, are dedicated to retire these bonds. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete this refunding will total a gross savings of \$743,658. The present value of the net economic gain resulting from this transaction is \$608,646.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

General Obligation Crossover Refunding Bonds, Series 2016A

On March 29, 2016, the District issued \$9,700,000 of General Obligation Crossover Refunding Bonds, Series 2016A. The proceeds of the issue will be used to refund the General Obligation School Building Bonds, Series 2008A, which were callable in February 2019. The new issue was issued at a premium of \$325,494. Assets of the Debt Service fund, together with scheduled ad valorem tax levies, are dedicated to retire these bonds. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete this refunding will total a gross savings of \$1,148,351. The present value of the net economic gain resulting from this transaction is \$1,034,991.

General Obligation Crossover Refunding Bonds, Series 2016B

On June 30, 2016, the District issued \$5,040,000 of Taxable General Obligation OPEB Crossover Refunding Bonds, Series 2016B. The proceeds of the issue were used to refund the General Obligation Taxable OPEB Bonds, Series 2009A, which were called in February 2018. Assets of the Debt Service fund, together with scheduled ad valorem tax levies, are dedicated to retire these bonds. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete this refunding will total a gross savings of \$424,953. The present value of the net economic gain resulting from this transaction is \$390,672.

Capital Lease Payable

In January 2008, the District entered into a capital lease with South Central Service Cooperative for the ECFE building. The lease is due in monthly payments through January 1, 2028.

In August 2012, the District entered into a lease with Riverbend Leasing for nine copiers. In August of 2017, this lease was renewed for 5 years. The lease is due in monthly payments through July 2022.

In July 2017, the District entered into leases for Chrome laptops and carts for students and staff. The leases are due in annual payments through July 2020. The individual leased assets are under the District's capitalization threshold and are not recorded as capital assets.

In July 2017, the District entered into a capital lease with Providence Capital Network, LLC for a Titan Paper Cutter. The lease is due in annual payments through July 8, 2021.

In July 2017, the District entered into a capital lease with Providence Capital Network, LLC for 40 UPS systems and 40 remote management adapters. The lease is due in annual payments through July 8, 2021.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Capital Lease Payable (Continued)

In July 2017, the District entered into a capital lease with Apple, Inc. for computers, iPads, and networking equipment. The lease is due in annual payments through July 15, 2020.

In December 2017, the District entered into a capital lease with All Lines Leasing for custodial equipment. The lease is due in monthly payments through January 2020.

In August 2018, the District entered into a capital lease with AFS Education Finance for computers, iPads, and networking equipment. The lease is due in annual payments through August 2021.

In September 2018, the District entered into leases for Chrome laptops and carts for students and staff. The leases are due in annual payments through September 2021.

In September 2018, the District entered into a capital lease with Apple Financial Services for computers, iPads, and networking equipment. The lease is due in annual payments through September 2021.

Assets of the General Fund and Community Service Fund are dedicated to retire the leases.

Total cost of assets under capital lease and the related accumulated depreciation is \$3,196,953 and \$1,145,661, respectively.

The following is a schedule of the future minimum principal and interest lease payments under the capital leases as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 382,723
2021	311,845
2022	192,571
2023	108,964
2024	106,404
2025-2028	381,282
Total Minimum Lease Payments	1,483,789
Less: Amounts Representing Interest	189,900
Present Value of Net Minimum Lease Payments	\$ 1,293,889

Severance and Wellness Benefits Payable

Severance and wellness benefits payable consist of severance payable to employees upon retirement. Severance has been paid by the General and Special Revenue Funds.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Compensated Absences Payable

Employees earn annual vacation pay at rates dependent upon each employee group labor contract. At June 30, certain employee groups may carry forward up to one year of unpaid vacation. At June 30, 2019, unpaid vacation totaling \$658,443 is recorded in the Statement of Net Position. Vacation benefits have been paid by the General and Special Revenue Funds.

D. Changes in Long-Term Debt

Changes in long-term debt during the year are summarized as follows:

	June 30, 2018	Additions	Retirements	June 30, 2019
Bonds Payable	\$ 104,060,000	\$ -	\$ 21,115,000	\$ 82,945,000
Bond Premiums	3,787,799	-	356,142	3,431,657
Capital Leases Payable	1,851,091	131,975	689,177	1,293,889
Severance and Wellness Benefits Payable	3,826,610	570,582	667,068	3,730,124
Compensated Absences Payable	657,915	824,929	824,401	658,443
Total	<u>\$ 114,183,415</u>	<u>\$ 1,527,486</u>	<u>\$ 23,651,788</u>	<u>\$ 92,059,113</u>

NOTE 5 OPERATING LEASES

The District has lease agreements to lease facilities and equipment. Rent expense under annual operating leases for the year ending June 30, 2019 was \$748,981. Some of these operating leases are funded through the lease levy.

Minimum rental commitments on leases in effect at June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 450,669
2021	156,734
2022	161,436
2023	166,279
Total	<u>\$ 935,118</u>

NOTE 6 RESTRICTED AND ASSIGNED 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. In addition, certain portions of fund balance have been assigned by the District for use for specific purposes.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

Fund Equity (Continued)

The following is a summary of the restricted and assigned fund balances for the governmental funds.

A. Restricted for Staff Development

In accordance with state statute, this fund balance restriction represents available resources dedicated exclusively for staff development.

B. 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.

C. Restricted for Learning and Development

Restricted for learning and development represents amounts restricted primarily for reducing the pupil-to-staff ratio.

D. Restricted for Community Education

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

E. Restricted for Early Childhood and Family Education

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

F. Restricted for Teacher Development and Evaluation

Restricted for teacher development and evaluation represents resources available for teacher development and evaluation uses.

G. Restricted for School Readiness

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

H. Restricted for Adult Basic Education

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

**MANKATO PUBLIC SCHOOLS
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NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

Fund Equity (Continued)

I. Restricted for Medical Assistance

Represents resources to be used for Medical Assistance expenditures.

J. Restricted for Long-Term Facilities Maintenance

Represents unspent State aid to finance facilities plans approved by its board and the commissioner.

K. Restricted for Other Purposes

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

L. Assigned for Separation/Retirement Benefits

This assignment represents resources segregated by the District for the payment of retirement benefits.

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (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).

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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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. GERS 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.

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 one percent 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.

**MANKATO PUBLIC SCHOOLS
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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

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

Tier 1	Step Rate Formula	Percentage
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

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.

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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions

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 \$1,179,175. The District's contributions were equal to the required contributions as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for the fiscal year were:

	2019	
	Employee	Employer
Basic	11.00%	11.71%
Coordinate	7.50%	7.71%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$3,887,874. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2019, the District reported a liability of \$12,570,839 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the District totaled \$412,464, for a total net pension liability of \$12,983,303 associated with the District. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the District's proportionate share was 0.2266%, which was an increase of 0.0025% from its proportionate share measured as of June 30, 2017.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
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JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

For the year ended June 30, 2019, the District recognized pension expense of \$592,521 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$96,186 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	\$ 332,730	\$ 366,637
Changes in Actuarial Assumptions	1,200,834	1,412,468
Net Difference Between Projected and Actual Earnings on Plan Investments	-	1,284,541
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	660,377	80,248
District Contributions Subsequent to the Measurement Date	1,179,175	-
Total	<u>\$ 3,373,116</u>	<u>\$ 3,143,894</u>

Of the resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$1,179,175 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 662,032
2021	(369,845)
2022	(979,764)
2023	(262,376)
2024	-
Thereafter	-

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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2019, the District reported a liability of \$53,735,988 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 0.8555% at the end of the measurement period and 0.8329% 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	\$ 53,735,988
State's Proportionate Share of the Net Pension Liability Associated with the District	5,048,528
Total	<u>\$ 58,784,516</u>

For the year ended June 30, 2019, the District recognized negative pension expense of \$17,502,012. It also recognized \$3,523,627 as a decrease to pension expense and negative grant revenue for the on-behalf 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	\$ 573,159	\$ 1,083,667
Changes in Actuarial Assumptions	69,383,106	91,626,519
Net Difference Between Projected and Actual Earnings on Plan Investments	-	4,167,220
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	6,090,951	213,781
District Contributions Subsequent to the Measurement Date	3,887,874	-
Total	<u>\$ 79,935,090</u>	<u>\$ 97,091,187</u>

**MANKATO PUBLIC SCHOOLS
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JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

Of the resources related to pensions resulting from District contributions to TRA subsequent to the measurement date, \$3,887,874 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ 6,612,125
2021	4,609,385
2022	1,251,326
2023	(19,449,102)
2024	(14,067,705)
Thereafter	-

3. Aggregate Pension Costs and Balances

	<u>TRA</u>	<u>GERF</u>	<u>Total</u>
Net Pension Liability	\$ 53,735,988	\$ 12,570,839	\$ 66,306,827
Deferred Outflows of Resources	79,935,090	3,373,116	83,308,206
Deferred Inflows of Resources	97,091,187	3,143,894	100,235,081
Pension Expense	(21,025,639)	688,707	(20,336,932)

E. Actuarial Assumptions

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

<u>Assumptions</u>	<u>GERF</u>	<u>TRA</u>
Inflation	2.50% per Year	2.50% per Year
Active Member Payroll Growth	11.25% after 1 year of service decreasing to 3.25% per year after 26 years	2.85% for 10 years and 3.25%, thereafter
Investment Rate of Return	7.50%	7.50%

PERA Salary increases were based on a service-related table. PERA mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. PERA cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

**MANKATO PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

Actuarial assumptions used in the PERA June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

TRA pre-retirement mortality rates were based on the RP-2014 white-collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale. Postretirement mortality rates were based on the RP-2014 white-collar annuitant table, male rates set back 3 years, and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. Post-disability mortality rates were based on the RP-2014 disabled retiree mortality table, without adjustment. TRA cost of living benefit increases 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

TRA assumptions are based on the full experience study dated June 2015 and the study of the economic assumptions presented to the Board in November 2017.

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

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

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

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.

**MANKATO PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 4 years, (7.92% in 2019, 8.13% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate was changed from 5.12% to 7.5%.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36 %	5.10%
International Stocks	17	5.30%
Alternative Investments (Private Markets)	25	5.90%
Bonds (Fixed Income)	20	0.75%
Cash	2	0.00%
Totals	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the PERA General Employees Plan liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund were 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 7.50%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contribution 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).

**MANKATO PUBLIC SCHOOLS
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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the GERF Net Pension Liability	\$ 20,429,223	\$ 12,570,839	\$ 6,083,968
<u>TRA Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the TRA Net Pension Liability	\$ 85,278,794	\$ 53,735,988	\$ 27,713,379

H. Pension Plan Fiduciary Net Position

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

Detailed information about TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-657-3669.

NOTE 8 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 \$791,973, \$758,263, and \$718,510, respectively. The related employee contributions were \$1,832,643, \$1,765,874, and \$1,398,349 for the years ended June 30, 2019, 2018, and 2017, respectively.

**MANKATO PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
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NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan (the Plan) that provides health insurance, dental insurance, and postretirement life insurance to eligible employees and their spouses through the District's insurance and self-insured dental plans. There are 816 active participants and 83 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy and Contributions

The District has assets designated for OPEB. These assets are in a qualified irrevocable trust which is included as a fiduciary fund in these financial statements. The District's investment policy is to follow state statutes as listed in Note 2. The District is assumed to make no future contributions to the trust. Benefit payments equal to the annual direct subsidy plus implicit subsidy are assumed to be made from the trust.

Contribution requirements are also negotiated between the District and union representatives. The District contributes up to 100% of the cost of current year premiums for eligible retired plan members and their spouses. The District also contributes an implicit rate subsidy for retired plan members. This is due to the actual cost for retirees being higher than the average per-person premium for the entire group. For fiscal year 2019, total contributions to the plan were \$342,922.

C. Investment Policy

The Trust does not have a formal investment policy. The entire portfolio of investments of the Trust is invested in mutual funds.

For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 6.88%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Net OPEB Liability of the District

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

Total OPEB Liability	\$ 20,981,924
Plan Fiduciary Net Position	12,762,257
District's Net OPEB Liability	<u>\$ 8,219,667</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	60.83%

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NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

Van Iwaarden Associates has conducted the actuarial valuation of the District's postretirement benefit plans. The most recent report, dated June 30, 2019 documents the Plan's fiscal year 2019 net OPEB liability based on GASB Statement No. 75.

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

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

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

Actuarial Cost Method	Entry age normal
	Straight-line amortization over a closed 5-year period for investment gains and losses. Straight-line amortization over a closed period equal to the average of the expected remaining service lives of all member that are provided with OPEB through the plan for the effect of assumptions changes and experience gains and losses.
Amortization Method	gains and losses.
Inflation	2.50%
Salary Increases	3.50%
Investment Rate of Return	5.25%
20-Year Municipal Bond Yield	3.13%
Health Care Trend Rates	6.90% grading to 4.00% in 2076

Mortality rates for teacher were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments. Mortality rates for non-teachers were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments.

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NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

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

Health care cost trend rates used 6.90% for fiscal year 2019, gradually decreasing over several decades to an ultimate rate of 4.00% in fiscal year 2076 and later years. In addition, the medical trend rates noted, were increased to reflect the projected effect of the Affordable Care Act's Excise Tax on high cost insurance plans. The additional trend rate adjustments vary by year, but average 0.37% beginning in calendar year 2023 for plans other than Medicare plans.

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

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

Asset Class	Target Allocation at Measurement Date	Long-Term Expected Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic Equity	20.00%	4.95%	7.45 %
International Equity	10.00%	5.24%	7.74
Fixed Income	70.00%	1.99%	4.49
Real Estate and Alternatives	0.00%	4.19%	6.69
Cash and Equivalents	0.00%	0.58%	3.08
Total			5.73
Reduced for Assumed Investment Expense			(0.45)
Net Assumed Investment Return (Weighted Avg Rounded to 1/4%)			5.25

The discount rate used to measure the total OPEB liability was 3.64%. The projection of cash flows and OPEB trust assets used to determine the discount rate were based on recent employer contribution history and their stated funding policy. The OPEB trust's long-term assumed investment return was used to discount projected benefit payments for as long as projected trust assets are available to fund OPEB payments. Once projected trust assets are exhausted, the municipal bond index rate of 3.13% was applied to the remaining expected benefit payments.

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

**MANKATO PUBLIC SCHOOLS
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JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

Since the most recent GASB 75 valuation, the following changes have been made:

- The discount rate was changed from 4.14% to 3.64% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations.
- The percent of future retirees eligible for a medical direct subsidy assumed to elect medical coverage at retirement changed from 90% to 80% to reflect recent plan experience.
- The percent of future retirees not eligible for a medical direct subsidy assumed to elect medical coverage at retirement changed from 15% to 10% to reflect recent plan experience.
- The percent of future retirees eligible to continue life insurance assumed to elect coverage at retirement changed from 40% to 50% to reflect recent plan experience.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

F. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2018	\$ 20,422,571	\$ 12,611,931	\$ 7,810,640
Changes for the Year:			
Service Cost	1,110,497	-	1,110,497
Interest	869,569	-	869,569
Changes in Assumptions	(1,109,814)	-	(1,109,814)
Changes of Benefit Terms	68,759	-	68,759
Differences Between Expected and Actual Experience	678,311	-	678,311
Contributions-Employer	-	342,922	(342,922)
Net Investment Income	-	865,373	(865,373)
Benefit Payments	(1,057,969)	(1,057,969)	-
Administrative Expense	-	-	-
Net Changes	<u>559,353</u>	<u>150,326</u>	<u>409,027</u>
Balances at June 30, 2019	<u>\$ 20,981,924</u>	<u>\$ 12,762,257</u>	<u>\$ 8,219,667</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

F. Changes in Net OPEB Liability (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is a one percentage point lower (2.64%) or one percentage point higher (4.64%) than the current discount rate:

	1% Decrease (2.64%)	Current Discount Rate (3.64%)	1% Increase (4.64%)
Net OPEB Liability (Asset)	\$ 9,696,874	\$ 8,219,667	\$ 6,825,453

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rates

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare trend rates that are one percentage point lower (5.90% decreasing to 3.00%) or one percentage point higher (7.90% decreasing to 5.00%) than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease (5.90% grading to 3.00%)	Current Trend (6.90% grading to 4.00%)	1% Increase (7.90% grading to 5.00%)
Net OPEB Liability (Asset)	\$ 6,380,999	\$ 8,219,667	\$ 10,359,327

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,381,083. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Liability	\$ 605,842	\$ -
Change of Assumptions	307,631	991,244
Net Difference Between Projected and Actual Investment Earnings	55,990	-
Contributions Between Measurement Date and Reporting Date	N/A	N/A
Total	\$ 969,463	\$ 991,244

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

F. Changes in Net OPEB Liability (Continued)

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

<u>Year Ending June 30,</u>	<u>Future Recognition</u>
2020	\$ 24,477
2021	24,477
2022	24,476
2023	(40,360)
2024	(5,730)
Thereafter	(49,121)
Total	<u>\$ (21,781)</u>

Trust Funds

The condensed financial statements of the District's trust funds are as follows:

ASSETS

Cash and Investments	\$ 12,761,919
Other Assets	338
Total Assets	<u>12,762,257</u>

NET POSITION

Held in Trust for Payment of OPEB Benefits	<u>\$ 12,762,257</u>
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ADDITIONS

Employer Contributions	\$ 342,922
Earnings on Investments	909,799
Total Additions	<u>1,252,721</u>

DEDUCTIONS

Retirement Benefits	1,057,969
Administrative Costs	44,426
Total Deductions	<u>1,102,395</u>

Change in Net Position	150,326
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Net Position - Beginning of Year	12,611,931
Net Position - End of Year	<u>\$ 12,762,257</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Expenditures	Excess
General Fund	\$ 104,239,986	\$ 106,561,793	\$ 2,321,807

These additional expenditures were paid for with available fund balance.

NOTE 11 SELF-INSURED DENTAL PLAN

The District has elected to self-insure its employee dental insurance program. The District has entered into an agreement with an insurance company to provide claims processing and other administrative duties. The District has not elected to purchase stop-loss insurance. However, the claims processor has indicated that the District will not be held liable for amounts in excess of 125% of the total projected claims as calculated by the claims processor, or \$730,134. The District established an internal service fund to account for contributions from other funds, including employee withholding, for dental insurance and to establish a reserve for catastrophic losses. Contributions during the year were based on a maximum claims estimate. The amounts charged to expenses include administrative fees, claims paid, and accruals for claims incurred but not paid at year-end. The District recorded expenses of \$768,154 for the year ended June 30, 2019.

The liability for unpaid claims included in the Internal Service Fund as claims payable for 2019 were:

	2019
Beginning of Fiscal Year Liability - July 1,	\$ 341,204
Incurred Claims	712,945
Claims Payments	(664,926)
End of Fiscal Year Liability - June 30,	\$ 389,223

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 12 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District has joined together with other School Districts in southcentral Minnesota in the Southcentral 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 and 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 self-insures for dental insurance offered to its employees. The District purchases commercial insurance coverage for all other risks of loss.

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

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.

NOTE 14 PRIOR PERIOD ADJUSTMENT

The District restated the fund balance of its beginning Community Service Fund and also restated beginning governmental activities net position as a result of the District previously recording revenues for summer student and community education courses when received instead of when the revenue was earned.

As a result, the fund balance of District's Community Service Fund as of June 30, 2018 has been restated to reflect the correct beginning balance of Community Service Fund unearned revenues:

<u>Description</u>	<u>Community Service Fund</u>
Fund Balance, June 30, 2018, as Previously Reported	\$ 1,515,783
Cumulative Affect of Restatement of Beginning Balance of Community Service Fund Unearned Revenues	<u>(132,292)</u>
Fund Balance, July 1, 2018, as Restated	<u>\$ 1,383,491</u>

The beginning governmental activities net position was also restated by \$132,292.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB MONEY-WEIGHTED RATE OF RETURN ON PLAN ASSETS
JUNE 30, 2019**

Year	Annual Money-Weighted Rate of Return, Net of Investment Expense
2017	5.45%
2018	3.49%
2019	6.88%

*The District implemented GASB Statement No. 75 in fiscal year 2018, and the above table will be expanded to 10 years of information as the information becomes available.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF CHANGES IN EMPLOYER'S NET OPEB LIABILITY AND RELATED RATIOS**

	2019	2018	2017
Total OPEB Liability			
Service Cost	\$ 1,110,497	\$ 943,846	\$ 943,134
Interest	869,569	977,787	898,557
Changes in Benefit Terms	68,759	-	-
Differences Between Expected and Actual Experience	678,311	-	-
Changes of Assumptions	(1,109,814)	388,373	(481,998)
Benefit Payments	(1,057,969)	(1,077,050)	(1,184,802)
Net Change in Total OPEB Liability	<u>559,353</u>	<u>1,232,956</u>	<u>174,891</u>
Total OPEB Liability - Beginning	<u>20,422,571</u>	<u>19,189,615</u>	<u>19,014,724</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 20,981,924</u></u>	<u><u>\$ 20,422,571</u></u>	<u><u>\$ 19,189,615</u></u>
 Plan Fiduciary Net Position			
Contributions - Employer	\$ 342,922	\$ 299,412	\$ 320,614
Net Investment Income	865,373	450,521	711,440
Benefit Payments	(1,057,969)	(1,077,050)	(1,184,802)
Administrative Expenses	-	-	-
Net Change in Plan Fiduciary Net Position	<u>150,326</u>	<u>(327,117)</u>	<u>(152,748)</u>
Plan Fiduciary Net Position - Beginning	<u>12,611,931</u>	<u>12,939,048</u>	<u>13,091,796</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 12,762,257</u></u>	<u><u>\$ 12,611,931</u></u>	<u><u>\$ 12,939,048</u></u>
 District's Net OPEB Liability (Asset) - Ending (a) - (b)	 \$ 8,219,667	 \$ 7,810,640	 \$ 6,250,567
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 60.83%	 61.75%	 67.43%
 Covered-Employee Payroll for Measurement Period	 \$ 55,950,935	 \$ 59,407,039	 \$ 59,764,196
 District's Net OPEB Liability (Asset) as a Percentage of Covered-Employee Payroll	 14.69%	 13.15%	 10.46%

The District implemented GASB Statement No. 74 in fiscal year 2017 and the above table will be expanded to 10 years of information as the information becomes available.

Notes to Schedule:

Benefit Changes: None

Changes of Assumptions:

- The discount rate was changed from 4.14% to 3.64% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF CHANGES IN EMPLOYER'S NET OPEB LIABILITY AND RELATED RATIOS
(CONTINUED)**

Notes to Schedule (Continued):

Changes of Assumptions (Continued):

- The percent of future retirees eligible for a medical direct subsidy assumed to elect medical coverage at retirement changed from 90% to 80% to reflect recent plan experience.
- The percent of future retirees not eligible for a medical direct subsidy assumed to elect medical coverage at retirement changed from 15% to 10% to reflect recent plan experience.
- The percent of future retirees eligible to continue life insurance assumed to elect coverage at retirement changed from 40% to 50% to reflect recent plan experience.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

Discount Rate:

- June 30, 2019 3.64%
- June 30, 2018 4.14%

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST FIVE MEASUREMENT DATES**

GERF Schedule of the District's Proportionate Share of the Net Pension Liability

	Measurement Date June 30,				
	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.2266%	0.2241%	0.2064%	0.2120%	0.2340%
District's Proportionate Share of the Net Pension Liability	\$ 12,570,839	\$ 14,306,396	\$ 16,758,656	\$ 10,997,305	\$ 10,968,660
State's Proportionate Share of the Net Pension Liability Associated with District	412,464	179,883	218,879	-	-
Total	<u>\$ 12,983,303</u>	<u>\$ 14,486,279</u>	<u>\$ 16,977,535</u>	<u>\$ 10,997,305</u>	<u>\$ 10,968,660</u>
District's Covered Payroll	15,211,053	14,491,950	12,736,718	12,455,641	12,254,986
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	82.64%	98.72%	131.58%	88.29%	89.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.53%	75.90%	68.90%	78.20%	78.70%

TRA Schedule of the District's Proportionate Share of the Net Pension Liability

	Measurement Date June 30,				
	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.8555%	0.8329%	0.7877%	0.7650%	0.8070%
District's Proportionate Share of the Net Pension Liability	\$ 53,735,988	\$ 166,261,949	\$ 187,885,245	\$ 47,341,374	\$ 37,204,411
State's Proportionate Share of the Net Pension Liability Associated with District	5,048,528	16,071,767	18,859,548	5,807,065	2,617,282
Total	<u>\$ 58,784,516</u>	<u>\$ 182,333,716</u>	<u>\$ 206,744,793</u>	<u>\$ 53,148,439</u>	<u>\$ 39,821,693</u>
District's Covered Payroll	\$ 47,955,867	\$ 45,049,254	\$ 40,975,053	\$ 38,844,387	\$ 36,857,686
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	112.05%	369.07%	458.54%	121.87%	100.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	51.57%	44.88%	76.80%	81.50%

These tables will eventually present ten years as the information becomes available.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
LAST SIX FISCAL YEARS**

GERF Schedule of District Contributions

	Fiscal Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
Statutorily Required Contribution	\$ 1,179,175	\$ 1,140,829	\$ 1,086,458	\$ 955,191	\$ 920,485	\$ 888,582
Contributions in Relation to the Statutorily Required Contribution	(1,179,175)	(1,140,829)	(1,086,458)	(955,191)	(920,485)	(888,582)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 15,722,333	\$ 15,211,053	\$ 14,491,950	\$ 12,736,718	\$ 12,455,641	\$ 12,254,986
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.39%	7.25%

TRA Schedule of District Contributions

	Fiscal Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
Statutorily Required Contribution	\$ 3,887,874	\$ 3,596,690	\$ 3,378,207	\$ 3,105,175	\$ 2,941,663	\$ 2,580,038
Contributions in Relation to the Statutorily Required Contribution	(3,887,874)	(3,596,690)	(3,378,207)	(3,105,175)	(2,941,663)	(2,580,038)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 50,426,381	\$ 47,955,867	\$ 45,049,254	\$ 41,396,320	\$ 39,233,185	\$ 36,857,686
Contributions as a Percentage of Covered Payroll	7.71%	7.50%	7.50%	7.50%	7.50%	7.00%

These tables will eventually present ten years as the information becomes available.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS AND
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

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

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5 % per year thereafter.

2016

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

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

2018

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS AND
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

2018 (Continued)

- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 5 years, (7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate was changed from 5.12% to 7.5%.

2017

- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The long-term expected rate of return was decreased from 8.0% to 7.5%.
- The single discount rate was changed from 4.66% to 5.12%.

2016

- Postretirement benefit adjustments are now assumed to stay level at 2.0% annually.
- The single discount rate was changed from 8.0% to 4.66%.
- The price inflation assumption was lowered from 3.0% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.

SUPPLEMENTARY INFORMATION

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF CHANGES IN FUND EQUITIES
YEAR ENDED JUNE 30, 2019**

	Fund Equities June 30, 2018	Revenues	Expenditures	Other Financing Sources (Uses)	Transfers	Prior Period Adjustments	Fund Equities June 30, 2019
GOVERNMENTAL FUNDS							
General Fund:							
Nonspendable	\$ 55,463	\$ -	\$ -	\$ -	\$ (55,463)	\$ -	\$ -
Restricted for Staff Development	264,914	1,185,424	(995,039)	-	-	-	455,299
Restricted for Health and Safety	-	-	-	-	-	-	-
Restricted for Operating Capital	324,363	3,365,184	(3,669,126)	-	-	-	20,421
Restricted for Learning and Development	386,709	2,068,387	(2,449,169)	-	-	-	5,927
Restricted for Gifted and Talented	-	122,073	(304,655)	-	182,582	-	-
Restricted for Teacher Development and Evaluation	42,829	-	(16,987)	-	-	-	25,842
Restricted for Basic Skills	-	4,401,346	(6,200,126)	-	1,798,780	-	-
Restricted for Career and Technical Programs	-	314,293	(1,306,349)	-	992,056	-	-
Restricted for Safe Schools - Crime	-	355,668	(581,884)	-	226,216	-	-
Restricted for Long-Term Facilities Maintenance	-	3,107,649	(1,867,573)	-	(719,776)	-	520,300
Restricted for Basic Skills Extended Time	-	140,734	(140,734)	-	-	-	-
Restricted for Medical Assistance	1,824,676	1,586,314	(193,095)	-	-	-	3,217,895
Assigned for Separation/Retirement Benefits	690,000	-	-	-	-	-	690,000
Unassigned	6,265,023	89,373,565	(88,837,056)	(288,938)	(2,424,395)	-	4,088,199
Total General Fund	9,853,977	106,020,637	(106,561,793)	(288,938)	-	-	9,023,883
Food Service Fund:							
Nonspendable	63,921	-	-	-	16,211	-	80,132
Restricted for Food Service	1,083,612	4,588,945	(4,417,974)	368,853	(16,211)	-	1,607,225
Total Food Service	1,147,533	4,588,945	(4,417,974)	368,853	-	-	1,687,357
Community Service Fund:							
Restricted for Community Education	-	3,750,300	(3,924,822)	-	301,763	(127,241)	-
Restricted for E.C.F.E.	857,845	534,321	(534,734)	-	-	(46)	857,386
Restricted for School Readiness	656,805	733,692	(796,315)	-	-	(5,005)	589,177
Restricted for Adult Basic Education	115,735	1,272,948	(1,246,172)	-	-	-	142,511
Restricted for Community Service	-	208,031	(259,586)	52,060	(505)	-	-
Unassigned	(114,602)	-	-	-	(301,258)	-	(415,860)
Total Community Service Fund	1,515,783	6,499,292	(6,761,629)	52,060	-	(132,292)	1,173,214
Capital Projects Fund:							
Restricted for Capital Projects	-	6,800	(6,800)	-	-	-	-
Total Capital Projects Fund	-	6,800	(6,800)	-	-	-	-
Debt Service Fund:							
Restricted for Bond Refundings	15,533,581	-	(153,581)	(15,380,000)	-	-	-
Restricted for Debt Service	895,247	8,936,922	(8,397,720)	-	-	-	1,434,449
Total Debt Service Fund	16,428,828	8,936,922	(8,551,301)	(15,380,000)	-	-	1,434,449
OPEB Debt Service Fund:							
Restricted for Bond Refundings	-	-	-	-	-	-	-
Restricted for OPEB Debt Service	250,403	961,129	(968,223)	-	-	-	243,309
Total OPEB Debt Service Fund	250,403	961,129	(968,223)	-	-	-	243,309
TOTAL GOVERNMENTAL FUNDS	29,196,524	127,013,725	(127,267,720)	(15,248,025)	-	(132,292)	13,562,212
FIDUCIARY FUNDS							
Trust Fund:							
Restricted for Scholarships and Other Purposes	81,880	24,124	(30,732)	-	-	-	75,272
OPEB Trust Fund:							
Restricted for Payment of OPEB Benefits	12,611,931	1,252,721	(1,102,395)	-	-	-	12,762,257
TOTAL FIDUCIARY FUNDS	12,693,811	1,276,845	(1,133,127)	-	-	-	12,837,529
PROPRIETARY FUNDS							
Internal Service Fund							
Unrestricted	(6,118)	703,533	(768,154)	-	-	-	(70,739)
TOTAL PROPRIETARY FUNDS	(6,118)	703,533	(768,154)	-	-	-	(70,739)
TOTAL ALL FUNDS	\$ 41,884,217	\$ 128,994,103	\$ (129,169,001)	\$ (15,248,025)	\$ -	\$ (132,292)	\$ 26,329,002

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Federal Expenditures	Passed Through to Subrecipients	
U.S. Department of Agriculture					
Passed Through Minnesota Department of Education					
National School Lunch Program					
Noncash Assistance (Commodities):	a	10.555	1-077-000	\$ 346,118	\$ -
Cash Assistance:					
School Breakfast Program	a	10.553	1-077-000	373,421	-
National School Lunch Program	a	10.555	1-077-000	1,498,686	-
National School Lunch Program - Commodity Cash Rebate	a	10.555	1-077-000	39,232	-
After School Snack	a	10.555	1-077-000	14,151	-
Special Milk Program for Children	a	10.556	1-077-000	4,096	-
Summer Food Service Program For Children	a	10.559	1-077-000	274,311	-
Total U.S. Department of Agriculture			<u>2,550,015</u>	<u>-</u>	
U.S. Department of Education					
Passed Through Minnesota Department of Education					
Adult Basic Education State Grant Program	b	84.002	**	99,114	-
ABE EL - Civics Competition Allocation	b	84.002	**	99,397	-
Title I, Part A - Grants to Local Educational Agencies		84.010	**	1,372,481	-
Special Education Grants to States	c	84.027	**	1,738,588	-
Special Education Preschool Grants	c	84.173	**	71,134	-
Special Education Grants for Infants and Families With Disabilities		84.181	**	123,254	-
Title III, Part A - English Language Acquisition Grants		84.365	**	57,843	-
Title II, Part A - Supporting Effective Instruction State Grants		84.367	**	234,778	-
Minnesota Energy Impact Aid		84.938C	**	19,305	-
Total Passed Through Minnesota Department of Education				<u>3,815,894</u>	<u>-</u>
Passed Through South Central Service Cooperative					
Career and Technical Education - Basic Grants to States		84.048	**	20,388	-
Total U.S. Department of Education				<u>3,836,282</u>	<u>-</u>
Total Federal Awards Expended				<u>\$ 6,386,297</u>	<u>\$ -</u>

** - Pass-through number unavailable

a Child Nutrition Cluster Total Expenditures = \$2,550,015

b Adult Basic Education Cluster Total Expenditures = \$198,511

c Special Education Cluster Total Expenditures = \$1,809,722

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 77 under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Independent School District No. 77, it is not intended to and does not present the financial position, changes in net position, or cash flows of Independent School District No. 77.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized, as applicable, following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Independent School District No. 77 has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.



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

Board of Education
Independent School District No. 77
Mankato, 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. 77, 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. 77's basic financial statements, and have issued our report thereon dated October 29, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 77'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. 77's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 77'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 77'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. 77's Response to Finding

Independent School District No. 77's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 77'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 result of that testing, and not to provide an opinion on the effectiveness of Independent School District No. 77's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 77's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 29, 2019



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

Board of Education
Independent School District No. 77
Mankato, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 77's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 77's major federal programs for the year ended June 30, 2019. Independent School District No. 77's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 77's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 77's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Independent School District No. 77's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 77 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

Independent School District No. 77's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 77's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Independent School District No. 77 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 77's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 77's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-002, that we consider to be a significant deficiency.

Board of Education
Independent School District No. 77

Independent School District No. 77's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 77's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 29, 2019



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 77
Mankato, 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. 77, as of June 30, 2019, and the related notes to the financial statements and have issued our report thereon dated October 29, 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. 77 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political School Districts*, insofar as they relate to accounting matters, except as described in the Schedule of Findings and Recommendations as items 2019-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 77's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

Independent School District No. 77's written response to the legal compliance findings identified in our audit is described in the Schedule of Findings and Recommendations. Independent School District No. 77's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 29, 2019

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section I – Summary of Independent Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes x none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified? reported x yes none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of Major Federal Programs

CFDA Number(s)

84.027 and 84.173
84.010

Name of Federal Program or Cluster

Special Education Cluster
Title I, Part A – Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 x yes no

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section II – Findings Related to the General Purpose Financial Statements

Finding 2019 – 001– Prior Period Adjustment

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: The District's fund balance as of June 30, 2018 was restated in the current year financial statements as a result of the District previously recording revenues for summer student and community education courses in the Community Service Fund when received instead of when the revenue was earned.

Criteria or specific requirement: The District should have sufficient internal controls in place, including formal review procedures, to ensure all year-end balances are correctly calculated and contain no material misstatements.

Context: During the performance of audit procedures over the District's unearned revenues, it was noted that the District did not record unearned revenues for summer student and community education courses in the Community Service Fund in the proper fiscal year. This resulted in an overstatement of the fund balance of the Community Service Fund and net position of the governmental activities in the amount of \$132,292 as of June 30, 2018.

Effect: The design of the internal controls over Community Service Fund unearned revenues the District's ability to detect or prevent a misstatement of the financial statements, misappropriation of assets, or fraudulent activity.

Cause: The District was unaware of the timing differences in the collection of revenues and missed unearned revenues for the related programs in prior years.

Repeat Finding: No.

Recommendation: We recommend the District review its procedures over calculating Community Service Fund unearned revenues to ensure all factors are taken into consideration and there are sufficient reviews in place over year-end balances to prevent material misstatements.

Views of responsible officials: There is no disagreement with the audit finding.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section III – Federal Awards Findings and Questioned Costs

Finding 2019 – 002 – Special Education Cluster Procurement

Federal agency: U.S. Department of Education

Federal program title: Special Education Cluster

CFDA Number: 84.027 and 84.173

Pass-Through Agency: Minnesota Department of Education

Pass-Through Number: 1-077-000

Award Period: Year ended June 30, 2019

Type of Finding:

- Significant Deficiency in Internal Control over Compliance and Compliance

Criteria or specific requirement: §200.319 requires that all procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals must be excluded from competing for such procurements. Additionally, §200.319 states that the District must have written procedures for procurement transactions that is fully updated for the new thresholds and procurement methods outlined in §200.320.

Condition: During our testing, it was noted that the District was not documenting considerations of open competition for any of the procurements over the micro-purchase threshold that were tested. Additionally the District had not formally updated its procurement policies to ensure compliance with the Uniform Guidance.

Questioned costs: None

Context: During our testing, we noted none of the six contracts tested had formal documentation of the District's consideration of open competition. Additionally, the District's only related procurement policy had not been formally updated for compliance with Uniform Guidance.

Cause: The District was unaware of the new procurement requirements for documentation of open competition. In regards to its procurement policy, the District had updated the internal, informal procedures that were being used, but it had not formally made those changes in the District's policy.

Effect: Lack of proper documentation could lead to using vendors for small purchase acquisitions without ensuring comparable pricing from other vendors and justifying costs. Lack of an updated policy could lead to improper procedures and selections related to how procurements are selected and awarded

Repeat Finding: No.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section III – Federal Awards Findings and Questioned Costs (Continued)

Finding 2019 – 002 – Special Education Cluster Procurement (Continued)

Recommendation: We recommend that the District creates some sort of standard form that indicates what method is being used to track all procured items over the micro-purchase threshold (\$10,000) to help formally document of how open competition is being assessed. Additionally, we recommend that the District update its formal procurement policy to be in compliance with the requirements of §200.319 and §200.3120.

Views of responsible officials: There is no disagreement with the audit finding.

Section IV – Minnesota Legal Compliance Findings

Finding 2019-003 – Contracting and Bid Laws

Criteria: Minnesota Statute 123B.52 Subdivision 1 notes that, after taking into consideration conformity with the specifications, terms of delivery, and other conditions imposed in the call for bids, every such contract for which a call for bids has been issued must be awarded to the lowest responsible bidder. If the contract is not awarded to the lowest bidder due to reasonable and appropriate reasons, those details must be documented in the minutes of the Board.

Condition: It was noted that 1 of the 2 contracts we tested was not awarded to the lowest bidder. After review of the bid files and memos kept within, it was determined that the District had discussed that there were reasonable and appropriate reasons for not awarding the bid to the lowest bidder, but there was no documentation or support of these reasons retained in the minutes of the Board.

Cause: The District was not aware of the requirement to document reason for not selecting the lowest bidder in the minutes of the Board.

Effect: The District was not in compliance with this statute during the fiscal year ending June 30, 2019.

Recommendation: We recommend that the District put in place internal controls that will ensure all required documentation for the award of bids is retained in the minutes of the Board going forward.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section IV – Minnesota Legal Compliance Findings (Continued)

Finding 2019-003 – Contracting and Bid Laws (Continued)

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Officials Responsible for Ensuring CAP:

The District's Director for Finance & Operations is the school official responsible for carrying out the corrective action plan.

Planned Completion Date for CAP:

The planned completion date for the CAP is January 1, 2020.

Plan to Monitor Completion of CAP:

The Board of Education and administration will be monitoring this corrective action plan.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2019**

	AUDIT	UFARS	DIFFERENCE		AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 106,020,637	\$ 106,020,637	\$ -	Total Revenue	\$ 6,800	\$ 6,800	\$ -
Total Expenditures	106,561,793	106,561,790	3	Total Expenditures	6,800	6,800	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	455,299	455,299	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	-	-	-	413 Projects Funded by COP	-	-	-
407 Capital Project Levy	-	-	-	464 Restricted Fund Balance	-	-	-
408 Cooperative Programs	-	-	-	<i>Unassigned:</i>			
413 Projects Funded by COP	-	-	-	463 Unassigned Fund Balance	-	-	-
414 Operating Debt	-	-	-				
416 Levy Reduction	-	-	-	07 DEBT SERVICE			
417 Taconite Building Maintenance	-	-	-	Total Revenue	8,936,922	8,936,922	-
424 Operating Capital	20,421	20,421	-	Total Expenditures	8,551,301	8,551,300	1
426 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable Fund Balance	-	-	-
428 Learning and Development	5,927	5,927	-	<i>Restricted:</i>			
434 Area Learning Center	-	-	-	425 Bond Refunding	-	-	-
435 Contracted Alternative Programs	-	-	-	451 QZAB and OSCB Payments	-	-	-
436 State-Approved Alternative Programs	-	-	-	464 Restricted Fund Balance	1,434,449	1,434,449	-
438 Gifted and Talented	-	-	-	<i>Unassigned:</i>			
440 Teacher Development and Evaluations	25,842	25,842	-	463 Unassigned Fund Balance	-	-	-
441 Basic Skills Programs	-	-	-				
445 Career and Technical Programs	-	-	-	08 TRUST			
448 Achievement and Integration	-	-	-	Total Revenue	24,124	24,124	-
449 Safe Schools Crime Levy	(526,216)	(526,216)	-	Total Expenditures	30,732	30,732	-
451 QZAB Payments	-	-	-	<i>Net Position:</i>			
452 OPEB Liability Not Held in Trust	-	-	-	422 Net Position	75,272	75,272	-
453 Unfunded Severance & Retirement Levy	-	-	-				
464 Restricted Fund Balance	-	-	-	20 INTERNAL SERVICE			
467 LTFM	520,300	520,300	-	Total Revenue	703,533	703,532	1
472 Medical Assistance	3,217,895	3,217,895	-	Total Expenditures	768,154	768,153	1
<i>Committed:</i>				<i>Net Position:</i>			
418 Committed for Separation	-	-	-	422 Net Position	(70,739)	(70,739)	-
461 Committed Fund Balance	-	-	-				
<i>Assigned:</i>				25 OPEB REVOCABLE TRUST			
462 Assigned Fund Balance	690,000	690,000	-	Total Revenue	-	-	-
<i>Unassigned:</i>				Total Expenditures	-	-	-
422 Unassigned Fund Balance	4,614,415	4,614,416	(1)	<i>Net Position:</i>			
				422 Net Position	-	-	-
02 FOOD SERVICE							
Total Revenue	4,588,945	4,588,947	(2)	45 OPEB IRREVOCABLE TRUST			
Total Expenditures	4,417,974	4,417,975	(1)	Total Revenue	1,252,721	1,252,721	-
<i>Nonspendable:</i>				Total Expenditures	1,102,395	1,102,395	-
460 Nonspendable Fund Balance	80,132	80,132	-	<i>Net Position:</i>			
<i>Restricted:</i>				422 Net Position	12,762,257	12,762,257	-
452 OPEB Liability Not Held in Trust	-	-	-				
464 Restricted Fund Balance	1,607,225	1,607,225	-	47 OPEB DEBT SERVICE			
<i>Unassigned:</i>				Total Revenue	961,129	961,129	-
463 Unassigned Fund Balance	-	-	-	Total Expenditures	968,223	968,223	-
				<i>Nonspendable:</i>			
04 COMMUNITY SERVICE				460 Nonspendable Fund Balance	-	-	-
Total Revenue	6,499,292	6,499,293	(1)	<i>Restricted:</i>			
Total Expenditures	6,761,629	6,761,630	(1)	425 Bond Refunding	-	-	-
<i>Nonspendable:</i>				464 Restricted Fund Balance	243,309	243,309	-
460 Nonspendable Fund Balance	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				463 Unassigned Fund Balance	-	-	-
426 \$25 Taconite	-	-	-				
431 Community Education	(416,365)	(416,365)	-				
432 E.C.F.E.	857,386	857,386	-				
440 Teacher Development and Evaluations	-	-	-				
444 School Readiness	589,177	589,177	-				
447 Adult Basic Education	142,511	142,511	-				
452 OPEB Liability Not Held in Trust	-	-	-				
464 Restricted Fund Balance	505	505	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

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STUDENT ACTIVITY FUNDS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 77
Mankato, Minnesota

Report on the Financial Statements

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 77 as of 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 statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Adverse Opinion on GAAP

As described in the note to the financial statements, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statements are prepared by the Independent School District No. 77 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 GAAP.

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

Adverse Opinion on GAAP

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on GAAP paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 77 as of June 30, 2019, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

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

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District No. 77 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 statements.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 29, 2019

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AS OF AND FOR YEAR ENDED JUNE 30, 2019**

	Balance 6/30/2018	Receipts	Disbursements and Transfers	Balance 6/30/2019
WEST HIGH				
Academic Athletic	\$ 665	\$ 283	\$ -	\$ 948
Art Field Trips	520	-	500	20
Band	517	2,602	2,874	245
Boys Basketball	398	5,764	2,937	3,225
Boys Cross Country	1,491	868	1,776	583
Boys Soccer	281	1,504	289	1,496
Boys Swimming and Dive	398	126	-	524
Boys Track and Field	789	-	-	789
Choir	12,327	2,367	1,298	13,396
Distributive Education Club of America	2,935	8,000	8,274	2,661
Drama	24,462	11,402	4,976	30,888
Drama Club	6,708	460	777	6,391
Fashions NY	948	-	-	948
Football Fund	13,852	8,643	11,555	10,940
French Language	145	38	-	183
German Language	3,500	17,250	13,424	7,326
Girls and Boys Tennis	460	1	-	461
Girls Basketball	40	9,633	9,121	552
Girls Cross Country	25	-	-	25
Girls Gymnastics	-	3,930	3,460	470
Girls Hockey	1,295	2,233	3,021	507
Girls Lacrosse	1,535	-	-	1,535
Girls Soccer	6,335	1,804	6,840	1,299
Girls Swimming and Dive	3,103	6,455	6,698	2,860
Grils Track & Field	1,423	651	568	1,506
Hall of Fame	1	2,324	2,325	-
History Club	792	1,500	837	1,455
Hockey Clinic	1,223	2,932	3,496	659
Interest	2,390	4,199	-	6,589
Key Club	767	2,247	2,551	463
Knowledge Bowl	307	-	-	307
Language Club	109	-	-	109
National Honor Society	2,320	1,120	542	2,898
Orchesis	12,148	12,574	11,153	13,569
Orchestra	1,739	150	-	1,889
OTAK Projects	24,723	2,949	1,718	25,954
Prom Fund	7,938	10,730	9,993	8,675
Scarlet School Store	298	942	463	777
Senior Class	57	-	-	57
Shine	1	117	-	118
Speech	1,480	1,555	252	2,783
SR Science Club	497	190	427	260
Student Council	7,266	3,552	2,950	7,868
Valley Fair Fund	-	500	500	-
Vex Robotics	2,409	42,935	40,448	4,896
Volleyball	452	2,064	1,627	889
TOTAL WEST HIGH	151,069	176,594	157,670	169,993

See accompanying Note to Student Activity Fund Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AS OF AND FOR YEAR ENDED JUNE 30, 2019**

	Balance 6/30/2018	Receipts	Disbursements and Transfers	Balance 6/30/2019
EAST HIGH				
Arboretum Project	\$ 2,803	\$ -	\$ 1,389	\$ 1,414
Art Club	344	1,122	474	992
Astronomy Club	1,078	547	308	1,317
AVID 11	251	-	251	-
AVID Club	52	251	-	303
Band	8,433	2,635	3,159	7,909
Baseball	4,629	41,081	45,549	161
Boys Basketball	1,180	13,498	12,142	2,536
Boys Cross Country	2,263	1,310	1,031	2,542
Boys Golf	58	2,450	2,238	270
Boys Hockey Fund	150	13,500	6,613	7,037
Boys Lacrosse	676	650	1,325	1
Boys Soccer	2,138	8,200	7,552	2,786
Boys Swim	1,500	4,565	5,160	905
Boys Tennis	642	278	434	486
Boys Track and Field	3,720	2,005	5,319	406
Choir	8,349	23,330	17,733	13,946
Climbing Wall	292	-	-	292
Dance Company	1,089	6,113	6,022	1,180
DECA	5,707	9,424	9,229	5,902
DECA Conference	98	-	98	-
Drama Fund	5,930	14,942	17,047	3,825
Envirothon	-	2,500	-	2,500
Fashion Travel	552	-	-	552
Football	4,914	14,523	13,478	5,959
Future Homemakers	92	-	92	-
Girls Basketball	6	12,567	11,641	932
Girls Cross Country	42	224	50	216
Girls Golf	1,470	1,346	1,604	1,212
Girls Hockey	5,404	14,248	15,806	3,846
Girls Soccer	3,861	3,403	3,963	3,301
Girls Swim	1,877	5,098	4,985	1,990
Girls Tennis	592	3,660	747	3,505
Girls Track and Field	3,481	1,805	5,195	91
GSA	-	84	45	39
Gymnastics	1,224	1,710	805	2,129
Hall of Fame	4	400	-	404
Interest	2,489	4,200	-	6,689
Key Club	1,185	650	676	1,159
Knowledge Bowl	915	-	75	840
M Club	2,490	14,763	3,365	13,888
Math League	124	-	-	124
National Honor Society	1,972	750	1,906	816
Orchestra	9,834	2,995	1,482	11,347
Outdoor Education	366	2,365	1,078	1,653
Photo Club	1,605	-	-	1,605
Physics	290	4,006	2,750	1,546

See accompanying Note to Student Activity Fund Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AS OF AND FOR YEAR ENDED JUNE 30, 2019**

	Balance 6/30/2018	Receipts	Disbursements and Transfers	Balance 6/30/2019
EAST HIGH (CONTINUED)				
Prom Fund	\$ 7,161	\$ 9,261	\$ 4,863	\$ 11,559
Prostart	85	3,595	1,181	2,499
SADD	988	-	988	-
Senior Class	477	-	135	342
Shine	506	761	666	601
Social Studies	156	-	-	156
Softball	3,672	4,560	6,202	2,030
Speech/Debate	1,970	2,509	3,454	1,025
SPIRIT	19,819	3,858	321	23,356
Student Council	123	2,473	2,594	2
Table Tennis	246	-	246	-
VEX Robotics	9,548	35,406	28,647	16,307
Volleyball	3,149	5,436	3,824	4,761
World Language Club	2,032	-	391	1,641
Wrestling Fund	1,039	6,251	4,626	2,664
XYZ Club	8	200	208	-
Youth Services	68	-	-	68
TOTAL EAST HIGH	147,218	311,508	271,162	187,564
PRAIRIE WINDS MIDDLE SCHOOL				
Author Day	412	-	173	239
Badgers 6	-	701	100	601
Bulldog 7	1,894	419	1,032	1,281
Choir	1,101	-	54	1,047
Gophers 6	-	751	100	651
Huskies 7	2,098	357	1,032	1,423
Maverick 8	1,540	172	1,331	381
Mustang 8	1,630	296	1,325	601
Project Right Start	4,400	1,305	-	5,705
Science Club	215	-	-	215
Student Activity	2,479	776	1,445	1,810
Student Council	2,239	1,540	1,946	1,833
Tech Ed	2,857	1,196	2,381	1,672
Yearbook	4,627	964	99	5,492
TOTAL PRAIRIE WINDS MIDDLE SCHOOL	25,492	8,477	11,018	22,951

See accompanying Note to Student Activity Fund Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AS OF AND FOR YEAR ENDED JUNE 30, 2019**

	Balance 6/30/2018	Receipts	Disbursements and Transfers	Balance 6/30/2019
DAKOTA MEADOWS MIDDLE SCHOOL				
6th Grade Transition	\$ 2,993	\$ 1,591	\$ 72	\$ 4,512
Author Day	651	-	-	651
AVID	-	708	-	708
Band	138	1,280	1,199	219
Choir Fund	600	859	567	892
Courage Retreat	16	1	-	17
Drama Club	405	-	-	405
Kasota Trail	453	-	-	453
Mankato Trail	1,310	-	-	1,310
Mendota Trail	580	-	-	580
Minneopa Trail	565	3,185	2,761	989
Minnesota Trail	830	-	-	830
Orchestra	10	713	389	334
Sakatah Trail	2,477	2,582	3,889	1,170
Science Club	386	-	1	385
Shine Diversity	202	-	-	202
Student Council	1,425	5,403	2,425	4,403
Student Funds	10,621	6,093	5,467	11,247
Student Recognition	9,998	530	249	10,279
Yearbook	4,111	1,676	-	5,787
TOTAL DAKOTA MEADOWS MIDDLE SCHOOL	37,771	24,621	17,019	45,373
OTHER				
ABE	2,526	6,071	5,868	2,729
Bridges	98	-	45	53
Central High School Store	219	1,027	794	452
Debate	5,745	2,010	1,652	6,103
District Science Boards	-	1,054	710	344
Eagle Lake Elementary	2,806	2,229	1,574	3,461
Franklin Student Council	2,215	-	-	2,215
Futures	2,720	-	1,875	845
Guthrie District Transportation	398	2,025	1,840	583
Hard of Hearing	1,274	3,244	2,002	2,516
Hoover Student Council	1,344	-	-	1,344
HOSA	5,451	6,467	7,099	4,819
Jefferson Elementary	1,390	2,047	2,143	1,294
Monroe Student Council	119	-	-	119
Roosevelt Student Council	1,937	-	-	1,937
State Capital Trips	5,866	-	968	4,898
Students in Need	2,794	-	257	2,537
Washington Student Council	398	441	440	399
Welding Club	-	140	121	19
TOTAL OTHER	37,300	26,755	27,388	36,667
TOTAL	\$ 398,850	\$ 547,955	\$ 484,257	\$ 462,548

See accompanying Note to Student Activity Fund Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
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. 77
Mankato, 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. 77 as of and for the year ended June 30, 2019, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated October 29, 2019. We expressed an adverse opinion on accounting principles generally accepted in the United States of America because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

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

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 77 failed to comply with the provisions of the *Manual for Activity Fund Accounting*, insofar as they relate to accounting matters, except as described in the Schedule of Findings and Responses as item 2019-004. 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. 77's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The District's written response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Responses. Independent School District No. 77's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 29, 2019

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND RESPONSES –
STUDENT ACTIVITY FUNDS
JUNE 30, 2019**

Finding: 2019-004 MINNESOTA LEGAL COMPLIANCE – INACTIVE STUDENT ACTIVITY ACCOUNTS

We noted 25 activity accounts that had no activity during the year. According to the *Manual for Activity Fund Accounting*, any activity account which has been inactive for a maximum of one fiscal year, must be disposed of, unless the advisor submits a plan to the building principal indicating why the activity has been inactive and why it should not be terminated.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will review the student activity accounts with advisors and principals and close those that no longer have activity.

Official Responsible for Ensuring CAP:

Tom Sager, Director of Business Services, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is December 31, 2019.

Plan to Monitor Completion of CAP:

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

