

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

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2018**

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INDEPENDENT SCHOOL DISTRICT NO. 77  
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## **INTRODUCTORY SECTION**

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**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
BOARD OF EDUCATION AND ADMINISTRATION  
YEAR ENDED JUNE 30, 2018**

**BOARD OF EDUCATION**

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

**ADMINISTRATION**

Sheri Allen	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, 2018, 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, 2018, 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 adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of this standard, Independent School District No. 77 reported a restatement for the change in accounting principle (see Note 14.) Our auditors' opinion was not modified with respect to the restatement.

### ***Report on Summarized Comparative Information***

We have previously audited Independent School District No. 77's 2017 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 4, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 November 19, 2018 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 result 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  
November 19, 2018

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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, 2018**

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, 2018. Please read it in conjunction with the District's financial statements, which immediately follows this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2017-2018 fiscal year include the following:

- Net Position of governmental activities decreased a total of \$37,699,457. \$10,206,878 was related to the restatement of beginning net position due to the District adopting GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (see Note 14). Most of the remainder of the decrease 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 rest of the decrease related to a planned spenddown in fund balance.
- Construction was completed on projects that were approved in the 2013 \$69.5 million dollar bond referendum. The construction of the community locker rooms at East High School and the remodel of East High School were completed and capitalized as of June 30, 2018. Related to this the Capital Projects Fund's spent down the remainder of these funds, and its fund balance decreased from \$4,266,765 as of June 30, 2017 to \$-0- as of June 30, 2018.
- The General Fund Balance decreased from \$14,068,665 on June 30, 2017 to \$9,853,977 on June 30, 2018.
- Total K-12 Average Daily Membership increased 63 students, up 0.74% from 2016-17.
- The Community Service Fund Balance decreased from \$1,674,038 on June 30, 2017 to \$1,515,783 on June 30, 2018.
- The OPEB Debt Service Fund Balance decreased from \$5,222,659 as of June 30, 2017 to \$250,403 as of June 30, 2018 because 2009A G.O. Taxable Bonds met their crossover refunding date in fiscal year 2018 and were paid out of the refunding escrow cash from the 2016B G.O. OPEB 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, 2018**

**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 \$81,016,029 on June 30, 2018 (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. This resulted in the District recording a net OPEB of \$7,810,640 as of June 30, 2018.

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

	Governmental Activities as of June 30,		Percentage Change
	2018	2017	
Current and Other Assets	\$ 66,866,895	\$ 80,167,897	(16.59)%
Capital Assets	117,627,189	114,772,493	2.49
Total Assets	<u>184,494,084</u>	<u>194,940,390</u>	(5.36)
Deferred Outflows of Resources	105,671,219	128,826,369	(17.97)
Current Liabilities	13,056,656	12,710,504	2.72
Long-Term Liabilities	114,183,415	125,028,267	(8.67)
Net Pension Liability	180,568,345	204,643,901	(11.76)
Net OPEB Liability	7,810,640	-	N/A
Total Liabilities	<u>315,619,056</u>	<u>342,382,672</u>	(7.82)
Deferred Inflows of Resources	<u>55,562,276</u>	<u>24,700,659</u>	124.94
Net Position:			
Net Investment in Capital Assets	33,451,580	30,837,819	8.48
Restricted	5,516,273	10,455,827	(47.24)
Unrestricted	(119,983,882)	(84,610,218)	41.81
Total Net Position	<u>\$ (81,016,029)</u>	<u>\$ (43,316,572)</u>	87.03

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**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
	2018	2017	
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 5,969,304	\$ 6,067,160	(1.61)%
Operating Grants and Contributions	30,889,835	31,219,876	(1.06)
Capital Grants and Contributions	1,777,580	1,231,054	44.39
<u>General Revenues</u>			
Property Taxes	23,019,452	22,336,098	3.06
Unrestricted State Aid	57,037,989	55,771,740	2.27
Investment Earnings	507,498	254,373	99.51
Other	75,834	96,366	(21.31)
Total Revenues	<u>119,277,492</u>	<u>116,976,667</u>	1.97
<b>Expenses</b>			
Administration	4,344,682	4,292,064	1.23
District Support Services	2,187,635	2,567,674	(14.80)
Regular Instruction	69,910,937	66,026,691	5.88
Vocational Education Instruction	1,969,214	1,770,777	11.21
Special Education Instruction	26,220,888	25,461,246	2.98
Instructional Support Services	7,986,044	7,741,605	3.16
Pupil Support Services	8,298,726	7,908,517	4.93
Sites and Buildings	9,513,196	9,906,317	(3.97)
Fiscal and Other Fixed Cost Programs	345,496	213,205	62.05
Food Service	4,821,928	4,723,550	2.08
Community Service	7,296,333	7,130,139	2.33
Interest and Fiscal Charges on Long-Term Liabilities	3,874,992	4,187,184	(7.46)
Total Expenses	<u>146,770,071</u>	<u>141,928,969</u>	3.41
<b>Change in Net Position</b>	(27,492,579)	(24,952,302)	
Beginning Net Position	(43,316,572)	(18,364,270)	
Change in Accounting Principle	(10,206,878)	-	
Beginning Net Position, as Restated	<u>(53,523,450)</u>	<u>(18,364,270)</u>	
Ending Net Position	<u>\$ (81,016,029)</u>	<u>\$ (43,316,572)</u>	

**Changes in Net Position**

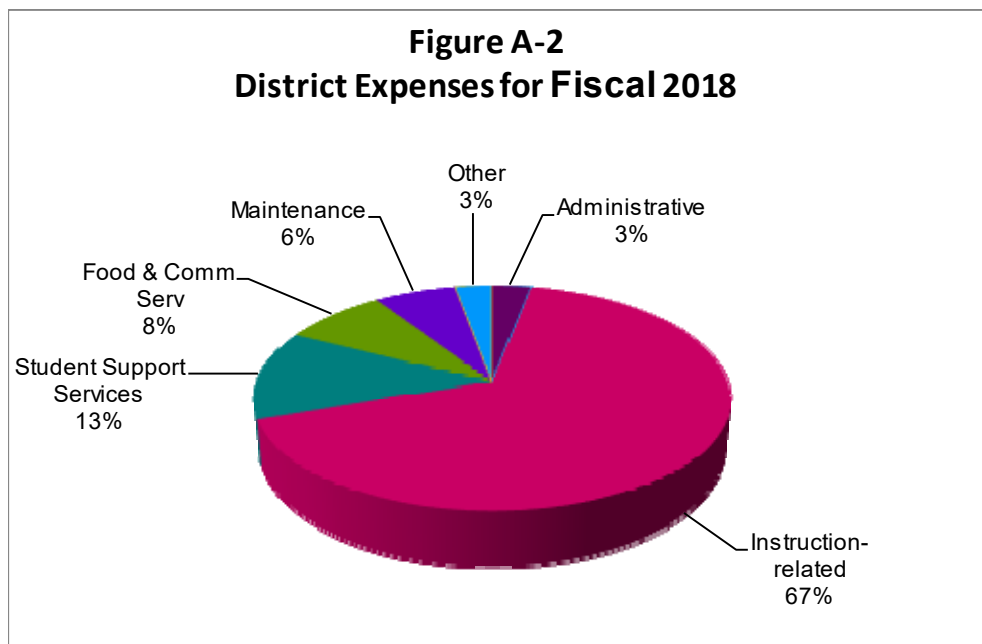
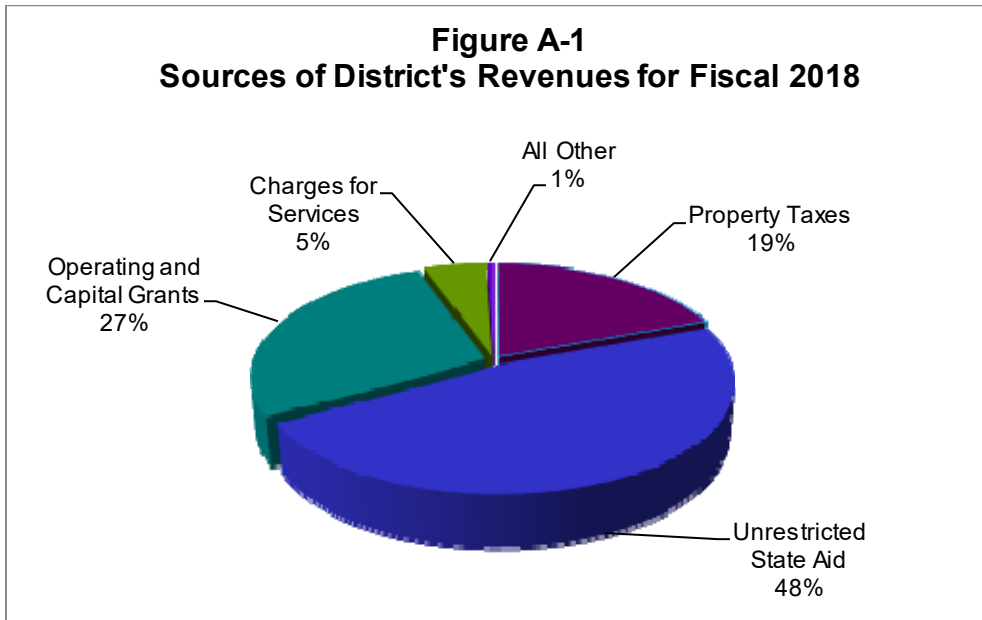
The District's total revenues were \$119,277,492 for the year ended June 30, 2018. Unrestricted state aid accounted for 48%, property taxes accounted for 19%, operating and capital grants accounted for 27%, and charges for services accounted for 5% (see Figure A-1).

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

The total cost of all programs and services was \$146,770,071. Direct instruction related costs accounted for 67%, student support services accounted for 13%, buildings and equipment costs accounted for 6%, community education services and food service accounted for 8%, administration 3%, and other expenses accounted for 3% 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, 2018**

**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
	2018	2017		2018	2017	
Administration	\$ 4,344,682	\$ 4,292,064	1.23 %	\$ 4,329,875	\$ 3,917,367	10.53 %
District Support Services	2,187,635	2,567,674	(14.80)	2,048,737	2,381,579	(13.98)
Regular Instruction	69,910,937	66,026,691	5.88	59,756,008	54,991,461	8.66
Vocational Education Instruction	1,969,214	1,770,777	11.21	1,864,160	1,697,503	9.82
Special Education Instruction	26,220,888	25,461,246	2.98	11,189,107	11,805,673	(5.22)
Instructional Support Services	7,986,044	7,741,605	3.16	6,575,495	5,896,669	11.51
Pupil Support Services	8,298,726	7,908,517	4.93	8,155,715	7,652,812	6.57
Sites and Buildings	9,513,196	9,906,317	(3.97)	8,128,741	9,219,919	(11.84)
Fiscal and Other Fixed Cost Programs	345,496	213,205	62.05	345,496	213,205	62.05
Food Service	4,821,928	4,723,550	2.08	265,438	223,727	18.64
Community Service	7,296,333	7,130,139	2.33	1,599,587	1,223,780	30.71
Interest and Fiscal Charges on Long-Term Liabilities	3,874,992	4,187,184	(7.46)	3,874,992	4,187,184	(7.46)
Total	<u>\$ 146,770,071</u>	<u>\$ 141,928,969</u>	3.41	<u>\$ 108,133,352</u>	<u>\$ 103,410,879</u>	4.57

**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 \$13,903,077 for the year ended June 30, 2018. This is primarily a result of the completion of construction projects, a refunding of OPEB debt, and the anticipated spend down of fund balance.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**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)**

<b>Grade</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
EC	111	118	135	144	136
HK	100	98	96	103	121
Kdgt.	590	574	582	556	559
1-3	1,892	2,003	2,068	2,097	2,062
4-6	1,707	1,742	1,859	2,001	2,077
7-12	3,245	3,324	3,422	3,604	3,613
Total E-12 ADM	7,645	7,859	8,162	8,505	8,568
ADM Change	71	214	303	343	63
Percent Change	0.94%	2.80%	3.86%	4.20%	0.74%

As depicted in Table A-4, average daily membership has increased steadily over the last five years. Certain elementary school sites encountered space shortages which prompted the District to propose and pass a bond referendum in 2013 for the construction and betterment of various school sites and facilities.



**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**GENERAL FUND (CONTINUED)**

The following schedule presents a summary of General Fund Revenues.

**Table A-5  
General Fund Revenues**

	Year Ended		Change	
	June 30, 2018	June 30, 2017	Increase (Decrease)	Percent Change
Local Sources:				
Property Taxes	\$ 13,214,662	\$ 12,102,045	\$ 1,112,617	9.2 %
Earnings on Investments	193,421	107,166	86,255	80.5
Other	2,608,974	2,234,028	374,946	16.8
State Sources	79,308,887	75,813,905	3,494,982	4.6
Federal Sources	3,527,857	3,251,396	276,461	8.5
Total General Fund Revenue	<u>\$ 98,853,801</u>	<u>\$ 93,508,540</u>	<u>\$ 5,345,261</u>	5.7

Total General Fund Revenue increased by \$5,345,261 or 5.7% 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, 2018	June 30, 2017	Increase (Decrease)	Percent Change
Salaries	\$ 60,003,962	\$ 56,679,721	\$ 3,324,241	5.9 %
Employee Benefits	22,619,114	20,463,600	2,155,514	10.5
Purchased Services	10,833,515	9,640,467	1,193,048	12.4
Supplies and Materials	3,625,690	3,516,237	109,453	3.1
Capital Expenditures	5,075,484	4,056,916	1,018,568	25.1
Other Expenditures	1,804,636	1,255,887	548,749	43.7
Total Expenditures	<u>\$ 103,962,401</u>	<u>\$ 95,612,828</u>	<u>\$ 8,349,573</u>	8.7

Total General Fund Expenditures increased \$8,349,573 or about 8.7% from the previous year.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**GENERAL FUND (CONTINUED)**

The total fund balance at June 30, 2018, is \$9,853,977. Of this amount \$2,843,491 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.

**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, 2018 is \$1,147,533, a decrease of \$72,269 from June 30, 2017.

Food Service Fund Revenues for the year ended June 30, 2018 totaled \$4,577,680. This was an increase of \$73,326 or 1.6% from the year ended June 30, 2017. Additional meals served contributed to the increased revenue.

Food Service Fund Expenditures for the year ended June 30, 2018 totaled \$4,649,949. This was an increase of \$152,544 or 3.4% from the year ended June 30, 2017.

**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, 2018 is \$1,515,783, a decrease of \$158,255 from June 30, 2018.

Community Service Fund Revenues and Other Financing Sources for the year ended June 30, 2018 totaled \$6,512,540. This was a decrease of \$120,784 or 1.8% from the year ended June 30, 2017. This decrease is largely due to a decrease in tuition and fee revenues related to the adult athletic program, ECFE program, and the early learning scholarship program.

Community Service Fund Expenditures for the year ended June 30, 2018 totaled \$6,670,795. This was an increase of \$107,038 or 1.6% from the year ended June 30, 2017. This increase is related to additional salaries and benefits expenditures due to additional needs in the adults with disabilities program and adult education program.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of fiscal 2018, the District had invested almost \$173.5 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 \$5,070,402.

**Table A-7  
Capital Assets**

	2018	2017	Percentage Change
Land	\$ 6,710,561	\$ 6,710,561	- %
Construction in Progress	514,121	10,483,845	(95.1)
Land Improvements	10,969,127	10,919,027	0.5
Buildings and Improvements	142,259,693	126,783,090	12.2
Equipment	13,054,106	10,685,987	22.2
Less: Accumulated Depreciation	(55,880,419)	(50,810,017)	10.0
Total District Capital Assets	<u>\$ 117,627,189</u>	<u>\$ 114,772,493</u>	2.5

**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 \$16,428,828 as of June 30, 2018 includes proceeds from bond sales that will be used to refund a portion of the 2008A General Obligation School Building Bonds. The fund balance amount along with the payable 2017 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, 2018**

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

**Long-Term Liabilities**

At year-end, the District had \$109,698,890 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**

	2018	2017	Percentage Change
General Obligation Bonds	\$ 104,060,000	\$ 114,340,000	(9.0)%
Net Bond Premium and Discount	3,787,799	4,002,224	(5.4)
Capital Leases Payable	1,851,091	1,657,296	11.7
Severance and Wellness Benefits Payable	3,826,610	4,376,872	(12.6)
Compensated Absences Payable	657,915	651,875	0.9
Net Pension Liability	180,568,345	204,643,901	(11.8)
Net OPEB Liability	7,810,640	-	N/A
Total Long-Term Liabilities	\$ 302,562,400	\$ 329,672,168	(8.2)
Long-Term Liabilities:			
Due Within One Year	\$ 22,810,605	\$ 11,661,641	
Due in More Than One Year	91,372,810	113,366,626	
Net Pension Liability	180,568,345	204,643,901	
Net OPEB Liability	7,810,640	-	
Total	\$ 302,562,400	\$ 329,672,168	

**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, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Governmental Activities	
	2018	2017
<b>ASSETS</b>		
Cash and Investments	\$ 28,152,223	\$ 33,048,265
Cash with Fiscal Agent	15,440,822	20,576,310
Receivables:		
Property Taxes	12,954,900	11,461,948
Other Governments	9,986,832	10,819,112
Other	212,734	215,824
Prepaid Items	55,463	43,001
Inventories	63,921	47,126
Prefunded Other Post Employment Benefit Obligations	-	3,956,311
Capital Assets:		
Land and Construction in Progress	7,224,682	17,194,406
Other Capital Assets, Net of Depreciation	110,402,507	97,578,087
Total Assets	184,494,084	194,940,390
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Losses on Debt Refunding	46,321	-
Pension Related	105,017,545	128,826,369
Other Postemployment Benefits Related	607,353	-
Total Deferred Outflows	105,671,219	128,826,369
<b>LIABILITIES</b>		
Salaries Payable	5,785,869	4,957,119
Accounts and Contracts Payable	5,568,023	5,800,473
Accrued Interest	1,576,440	1,767,746
Unearned Revenue	126,324	185,166
Long-Term Liabilities:		
Other Long-Term Liabilities Due Within One Year	22,810,605	11,661,641
Other Long-Term Liabilities Due in More Than One Year	91,372,810	113,366,626
Net Pension Liability	180,568,345	204,643,901
Net OPEB Liability	7,810,640	-
Total Liabilities	315,619,056	342,382,672
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes Levied for Subsequent Year	25,951,795	21,875,717
Pension Related	29,610,481	2,824,942
Total Deferred Inflows of Resources	55,562,276	24,700,659
<b>NET POSITION</b>		
Net Investment in Capital Assets	33,451,580	30,837,819
Restricted for:		
Operating Capital Purposes	324,363	1,126,782
State-Mandated Reserves	2,519,128	2,265,309
Food Service	1,147,533	1,219,802
Community Service	1,525,249	1,684,730
Capital Projects	-	202,893
Other Post Employment Benefit Obligations	-	3,956,311
Unrestricted	(119,983,882)	(84,610,218)
Total Net Position	\$ (81,016,029)	\$ (43,316,572)

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

Functions	2018				2017	
	Expenses	Program Revenues			Net (Expense)	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Position	Revenue and Change in Net Position
				Total Governmental Activities	Total Governmental Activities	
<b>GOVERNMENTAL ACTIVITIES</b>						
Administration	\$ 4,344,682	\$ -	\$ 12,838	\$ 1,969	\$ (4,329,875)	\$ (3,917,367)
District Support Services	2,187,635	-	4,265	134,633	(2,048,737)	(2,381,579)
Regular Instruction	69,910,937	617,787	8,865,795	671,347	(59,756,008)	(54,991,461)
Vocational Education Instruction	1,969,214	-	105,054	-	(1,864,160)	(1,697,503)
Special Education Instruction	26,220,888	-	15,031,781	-	(11,189,107)	(11,805,673)
Instructional Support Services	7,986,044	56,687	1,254,444	99,418	(6,575,495)	(5,896,669)
Pupil Support Services	8,298,726	700	135,944	6,367	(8,155,715)	(7,652,812)
Sites and Buildings	9,513,196	52,060	468,548	863,847	(8,128,741)	(9,219,919)
Fiscal and Other Fixed Cost Programs	345,496	-	-	-	(345,496)	(213,205)
Food Service	4,821,928	1,769,766	2,786,724	-	(265,438)	(223,727)
Community Service	7,296,333	3,472,304	2,224,442	-	(1,599,587)	(1,223,780)
Interest and Fiscal Charges on Long-Term Liabilities	3,874,992	-	-	-	(3,874,992)	(4,187,184)
Total School District	<u>\$ 146,770,071</u>	<u>\$ 5,969,304</u>	<u>\$ 30,889,835</u>	<u>\$ 1,777,580</u>	(108,133,352)	(103,410,879)
<b>GENERAL REVENUES</b>						
Property Taxes Levied for:						
General Purposes					13,198,428	12,107,301
Community Service					776,314	779,414
Debt Service					9,044,710	9,449,383
State Aid Not Restricted to Specific Purposes					57,037,989	55,771,740
Earnings on Investments					507,498	254,373
Miscellaneous					70,834	96,366
Gain on Sale of Capital Assets					5,000	-
Total General Revenues					<u>80,640,773</u>	<u>78,458,577</u>
<b>CHANGE IN NET POSITION</b>					(27,492,579)	(24,952,302)
Net Position - Beginning					(43,316,572)	(18,364,270)
Change in Accounting Principle - See Note 14					(10,206,878)	-
Net Position - Beginning, as Restated					<u>(53,523,450)</u>	<u>(18,364,270)</u>
<b>NET POSITION - ENDING</b>					<u>\$ (81,016,029)</u>	<u>\$ (43,316,572)</u>

See accompanying Notes to Financial Statements.



**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Major Funds						Total Governmental Funds	
	General	Food Service	Community Service	Capital Projects	Debt Service	OPEB Debt Service	2018	2017
<b>ASSETS</b>								
Cash and Investments	\$ 16,495,008	\$ 1,111,407	\$ 1,818,540	\$ 2,193,129	\$ 5,448,819	\$ 750,234	\$ 27,817,137	\$ 32,708,857
Cash with Fiscal Agent	-	-	-	-	15,440,822	-	15,440,822	20,576,310
Receivables:								
Current Property Taxes	7,766,244	-	387,775	-	4,105,687	450,715	12,710,421	11,187,865
Delinquent Property Taxes	138,028	-	9,466	-	83,509	13,476	244,479	274,083
Accounts and Interest Receivable	94,123	10,638	15,214	-	92,759	-	212,734	215,824
Due from Minnesota Department of Education	8,163,269	799	144,711	-	4,564	555	8,313,898	9,001,596
Due from Federal through Minnesota Department of Education	1,433,583	85,602	153,749	-	-	-	1,672,934	1,817,516
Inventory	-	63,921	-	-	-	-	63,921	47,126
Prepays	55,463	-	-	-	-	-	55,463	43,001
<b>Total Assets</b>	<b>\$ 34,145,718</b>	<b>\$ 1,272,367</b>	<b>\$ 2,529,455</b>	<b>\$ 2,193,129</b>	<b>\$ 25,176,160</b>	<b>\$ 1,214,980</b>	<b>\$ 66,531,809</b>	<b>\$ 75,872,178</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>								
Liabilities:								
Salaries and Compensated Absences Payable	\$ 2,036,423	\$ 19,535	\$ 176,413	\$ 3,197	\$ -	\$ -	\$ 2,235,568	\$ 1,766,320
Payroll Deductions and Employer Contributions Payable	3,550,301	-	-	-	-	-	3,550,301	3,190,799
Accounts and Contracts Payable	2,979,097	48,282	9,508	2,189,932	-	-	5,226,819	5,480,493
Unearned Revenue	69,307	57,017	-	-	-	-	126,324	185,166
<b>Total Liabilities</b>	<b>8,635,128</b>	<b>124,834</b>	<b>185,921</b>	<b>2,193,129</b>	<b>-</b>	<b>-</b>	<b>11,139,012</b>	<b>10,622,778</b>
Deferred Inflows of Resources:								
Unavailable Revenue - Property Taxes Levied for Subsequent Year	15,518,586	-	818,285	-	8,663,823	951,101	25,951,795	21,875,717
Unavailable Revenue - Delinquent Property Taxes	138,027	-	9,466	-	83,509	13,476	244,478	274,082
<b>Total Deferred Inflows of Resources</b>	<b>15,656,613</b>	<b>-</b>	<b>827,751</b>	<b>-</b>	<b>8,747,332</b>	<b>964,577</b>	<b>26,196,273</b>	<b>22,149,799</b>
Fund Balance:								
Nonspendable:								
Inventory	-	63,921	-	-	-	-	63,921	47,126
Prepays	55,463	-	-	-	-	-	55,463	43,001
Restricted for:								
Staff Development	264,914	-	-	-	-	-	264,914	401,083
Health and Safety	-	-	-	-	-	-	-	97,895
Operating Capital	324,363	-	-	-	-	-	324,363	1,126,782
Bond Refundings	-	-	-	-	15,533,581	-	15,533,581	20,685,264
Learning and Development	386,709	-	-	-	-	-	386,709	811,082
Community Education	-	-	-	-	-	-	-	342,913
Early Childhood and Family Education	-	-	857,845	-	-	-	857,845	730,783
Teacher Development and Evaluation	42,829	-	-	-	-	-	42,829	78,280
School Readiness	-	-	656,805	-	-	-	656,805	489,848
Adult Basic Education	-	-	115,735	-	-	-	115,735	110,494
Medical Assistance	1,824,676	-	-	-	-	-	1,824,676	876,969
Restricted for Other Purposes:								
Food Service	-	1,083,612	-	-	-	-	1,083,612	1,172,676
Capital Projects	-	-	-	-	-	-	-	4,266,765
Debt Service	-	-	-	-	895,247	-	895,247	901,374
OPEB Debt Service	-	-	-	-	-	250,403	250,403	283,693
Assigned for:								
Separation/Retirement Benefits	690,000	-	-	-	-	-	690,000	690,000
Unassigned	6,265,023	-	(114,602)	-	-	-	6,150,421	9,943,573
<b>Total Fund Balance</b>	<b>9,853,977</b>	<b>1,147,533</b>	<b>1,515,783</b>	<b>-</b>	<b>16,428,828</b>	<b>250,403</b>	<b>29,196,524</b>	<b>43,099,601</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 34,145,718</b>	<b>\$ 1,272,367</b>	<b>\$ 2,529,455</b>	<b>\$ 2,193,129</b>	<b>\$ 25,176,160</b>	<b>\$ 1,214,980</b>	<b>\$ 66,531,809</b>	<b>\$ 75,872,178</b>

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, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	2018	2017
<b>Total Fund Balance for Governmental Funds</b>	<b>\$ 29,196,524</b>	<b>\$ 43,099,601</b>
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	6,710,561
Construction in Progress	514,121	10,483,845
Land Improvements, Net of Accumulated Depreciation	7,779,527	8,251,469
Buildings and Improvements, Net of Accumulated Depreciation	95,433,217	83,549,256
Equipment, Net of Accumulated Depreciation	7,189,763	5,777,362
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.		
	244,478	274,082
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.		
	46,321	-
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.		
	(1,576,440)	(1,767,746)
Contributions in excess of the OPEB liability recognized to date, are not current financial resources and therefore are not reported at the fund level.		
	-	3,956,311
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	(7,810,640)	-
Deferred Outflows of Resources - Other Post Employment Benefits	607,353	-
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	(180,568,345)	(204,643,901)
Deferred Inflows of Resources - Pensions	(29,610,481)	(2,824,942)
Deferred Outflows of Resources - Pensions	105,017,545	128,826,369
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	(104,060,000)	(114,340,000)
Unamortized Premiums	(3,787,799)	(4,056,839)
Unamortized Discounts	-	54,615
Capital Leases Payable	(1,851,091)	(1,657,296)
Severance and Health Benefits Payable	(3,826,610)	(4,376,872)
Compensated Absences Payable	(657,915)	(651,875)
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:		
	(6,118)	19,428
<b>Total Net Position of Governmental Activities</b>	<b>\$ (81,016,029)</b>	<b>\$ (43,316,572)</b>

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, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)**

	Major Funds						Total Governmental Funds	
	General	Food Service	Community Service	Capital Projects	Debt Service	OPEB Debt Service	2018	2017
<b>REVENUES</b>								
Local Sources:								
Property Taxes	\$ 13,214,662	\$ -	\$ 777,540	\$ -	\$ 8,075,117	\$ 981,737	\$ 23,049,056	\$ 22,324,265
Earnings and Investments	193,421	17,464	22,770	49,571	182,161	41,988	507,375	254,284
Other	2,608,974	1,777,604	3,794,418	-	-	-	8,180,996	7,948,440
State Sources	79,308,887	230,606	1,655,050	-	45,653	5,544	81,245,740	77,738,139
Federal Sources	3,527,857	2,552,006	257,762	-	-	-	6,337,625	6,001,036
Total Revenues	<u>98,853,801</u>	<u>4,577,680</u>	<u>6,507,540</u>	<u>49,571</u>	<u>8,302,931</u>	<u>1,029,269</u>	<u>119,320,792</u>	<u>114,266,164</u>
<b>EXPENDITURES</b>								
Current:								
Administration	3,324,300	-	-	-	-	-	3,324,300	3,216,599
District Support Services	1,917,436	-	-	-	-	-	1,917,436	2,272,377
Elementary and Secondary Regular Instruction	48,552,611	-	-	-	-	-	48,552,611	45,054,539
Vocational Education Instruction	1,468,784	-	-	-	-	-	1,468,784	1,328,788
Special Education Instruction	20,410,991	-	-	-	-	-	20,410,991	19,344,830
Instructional Support Services	5,903,854	-	-	-	-	-	5,903,854	5,009,747
Pupil Support Services	7,314,355	-	-	-	-	-	7,314,355	6,804,013
Sites and Buildings	8,865,229	-	-	-	-	-	8,865,229	7,952,867
Fiscal and Other Fixed Cost Programs	345,496	-	-	-	-	-	345,496	213,205
Food Service	-	4,527,257	-	-	-	-	4,527,257	4,440,845
Community Service	-	-	6,629,901	-	-	-	6,629,901	6,487,651
Capital Outlay	5,075,484	122,692	40,894	4,316,336	-	-	9,555,406	18,741,280
Debt Service:								
Principal	700,117	-	-	-	4,650,000	745,000	6,095,117	5,728,082
Interest and Fiscal Charges	83,744	-	-	-	3,871,775	371,525	4,327,044	4,493,461
Total Expenditures	<u>103,962,401</u>	<u>4,649,949</u>	<u>6,670,795</u>	<u>4,316,336</u>	<u>8,521,775</u>	<u>1,116,525</u>	<u>129,237,781</u>	<u>131,088,284</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	(5,108,600)	(72,269)	(163,255)	(4,266,765)	(218,844)	(87,256)	(9,916,989)	(16,822,120)
<b>OTHER FINANCING SOURCES (USES)</b>								
Sale of Equipment	-	-	5,000	-	-	-	5,000	-
Proceeds from Capital Lease	893,912	-	-	-	-	-	893,912	-
Payment to Refunded Bond Escrow Agent	-	-	-	-	-	(4,885,000)	(4,885,000)	-
Total Other Financing Sources (Uses)	<u>893,912</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>(4,885,000)</u>	<u>(3,986,088)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(4,214,688)	(72,269)	(158,255)	(4,266,765)	(218,844)	(4,972,256)	(13,903,077)	(16,822,120)
<b>FUND BALANCE</b>								
Beginning of Year	14,068,665	1,219,802	1,674,038	4,266,765	16,647,672	5,222,659	43,099,601	59,921,721
End of Year	<u>\$ 9,853,977</u>	<u>\$ 1,147,533</u>	<u>\$ 1,515,783</u>	<u>\$ -</u>	<u>\$ 16,428,828</u>	<u>\$ 250,403</u>	<u>\$ 29,196,524</u>	<u>\$ 43,099,601</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, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)**

	2018	2017
<b>Net Change in Fund Balance - Total Governmental Funds</b>	<b>\$ (13,903,077)</b>	<b>\$ (16,822,120)</b>
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	7,925,098	15,362,937
Gain on Disposal of Capital Assets	5,000	-
Proceeds from the Sales of Capital Assets	(5,000)	-
Depreciation Expense	(5,070,402)	(3,885,466)
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	(893,912)	-
Change in Accrued Interest Expense - Capital Lease	310	1,693
Principal Payments - Capital Leases	700,117	563,082
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.		
	(29,604)	11,833
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.		
	(26,518,807)	(24,892,551)
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).		
	544,222	307,477
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.		
	(952,720)	(1,064,184)
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	4,885,000	-
Repayment of Bond Principal	5,395,000	5,165,000
Change in Accrued Interest - General Obligation Bonds	190,996	43,840
Amortization of Bond Premium	269,040	269,040
Amortization of Bond Discount	(4,839)	(8,296)
Amortization of Deferred Charges on Refunding Bonds	(3,455)	-
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.		
	(25,546)	(4,587)
Total	<b>\$ (27,492,579)</b>	<b>\$ (24,952,302)</b>

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  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Sources:				
Property Taxes	\$ 13,129,800	\$ 13,106,139	\$ 13,214,662	\$ 108,523
Earnings and Investments	110,000	190,000	193,421	3,421
Other	1,947,190	2,195,045	2,608,974	413,929
State Sources	76,741,053	78,446,468	79,308,887	862,419
Federal Sources	3,315,116	3,649,367	3,527,857	(121,510)
Total Revenues	<u>95,243,159</u>	<u>97,587,019</u>	<u>98,853,801</u>	<u>1,266,782</u>
<b>EXPENDITURES</b>				
Current:				
Administration	3,217,528	3,299,345	3,324,300	24,955
District Support Services	1,798,425	1,935,104	1,917,436	(17,668)
Elementary and Secondary Regular Instruction	48,197,610	47,160,471	48,552,611	1,392,140
Vocational Education Instruction	1,130,185	1,162,053	1,468,784	306,731
Special Education Instruction	18,997,248	20,380,843	20,410,991	30,148
Instructional Support Services	5,068,927	5,683,657	5,903,854	220,197
Pupil Support Services	6,432,564	7,393,210	7,314,355	(78,855)
Sites and Buildings	8,354,488	7,582,882	8,865,229	1,282,347
Fiscal and Other Fixed Cost Programs	1,120,542	1,110,054	345,496	(764,558)
Capital Outlay	3,565,175	4,509,091	5,075,484	566,393
Debt Service:				
Principal	-	-	700,117	700,117
Interest and Fiscal Charges	-	-	83,744	83,744
Total Expenditures	<u>97,882,692</u>	<u>100,216,710</u>	<u>103,962,401</u>	<u>3,745,691</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(2,639,533)	(2,629,691)	(5,108,600)	(2,478,909)
<b>OTHER FINANCING SOURCES</b>				
Sale of Equipment	5,000	-	-	-
Issuance of Capital Loans	-	-	893,912	893,912
Total Other Financing Sources	<u>5,000</u>	<u>-</u>	<u>893,912</u>	<u>893,912</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (2,634,533)</u>	<u>\$ (2,629,691)</u>	(4,214,688)	<u>\$ (1,584,997)</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>14,068,665</u>	
End of Year			<u>\$ 9,853,977</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, 2018**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Sources:				
Earnings and Investments	\$ 5,000	\$ 5,200	\$ 17,464	\$ 12,264
Other - Primarily Meal Sales	1,723,500	1,792,440	1,777,604	(14,836)
State Sources	200,000	208,000	230,606	22,606
Federal Sources	2,448,500	2,546,440	2,552,006	5,566
Total Revenues	<u>4,377,000</u>	<u>4,552,080</u>	<u>4,577,680</u>	<u>25,600</u>
<b>EXPENDITURES</b>				
Current:				
Food Service	4,193,430	4,361,167	4,527,257	166,090
Capital Outlay	135,000	140,400	122,692	(17,708)
Total Expenditures	<u>4,328,430</u>	<u>4,501,567</u>	<u>4,649,949</u>	<u>148,382</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 48,570</u>	<u>\$ 50,513</u>	(72,269)	<u>\$ (122,782)</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>1,219,802</u>	
End of Year			<u>\$ 1,147,533</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, 2018**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Sources:				
Property Taxes	\$ 885,062	\$ 885,062	\$ 777,540	\$ (107,522)
Earnings and Investments	-	-	22,770	22,770
Other - Primarily Tuition and Fees	3,533,390	3,657,445	3,794,418	136,973
State Sources	1,670,197	1,662,739	1,655,050	(7,689)
Federal Sources	286,000	307,577	257,762	(49,815)
Total Revenues	<u>6,374,649</u>	<u>6,512,823</u>	<u>6,507,540</u>	<u>(5,283)</u>
<b>EXPENDITURES</b>				
Current:				
Community Service	6,884,387	7,159,901	6,629,901	(530,000)
Capital Outlay	48,300	60,564	40,894	(19,670)
Total Expenditures	<u>6,932,687</u>	<u>7,220,465</u>	<u>6,670,795</u>	<u>(549,670)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(558,038)	(707,642)	(163,255)	544,387
<b>OTHER FINANCING SOURCES</b>				
Sale of Equipment	-	-	5,000	5,000
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (558,038)</u>	<u>\$ (707,642)</u>	(158,255)	<u>\$ 549,387</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>1,674,038</u>	
End of Year			<u>\$ 1,515,783</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Governmental Activities - Internal Service Funds	
	2018	2017
<b>ASSETS</b>		
Cash and Investments	\$ 335,086	\$ 339,408
<b>LIABILITIES</b>		
Claims Payable for Dental Benefits	341,204	319,980
<b>NET POSITION</b>		
Unrestricted	\$ (6,118)	\$ 19,428

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, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)**

	Governmental Activities - Internal Service Funds	
	2018	2017
<b>OPERATING REVENUES</b>		
Charges for Services:		
Dental Insurance Premiums	\$ 664,996	\$ 596,512
<b>OPERATING EXPENSES</b>		
Dental Insurance Claim Payments	631,989	549,871
General Administration Fees	58,676	51,317
Total Operating Expenses	690,665	601,188
<b>OPERATING LOSS</b>	(25,669)	(4,676)
<b>NONOPERATING INCOME</b>		
Earnings on Investments	123	89
<b>CHANGE IN NET POSITION</b>	(25,546)	(4,587)
Net Position - Beginning	19,428	24,015
<b>NET POSITION - ENDING</b>	\$ (6,118)	\$ 19,428

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)**

	Governmental Activities - Internal Service Funds	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Interfund Services Provided	\$ 664,996	\$ 596,512
Payments for Administrative Costs	(58,676)	(51,317)
Payments for Retirement Benefits	(610,765)	(544,713)
Net Cash Provided (Used) by Operating Activities	(4,445)	482
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	123	89
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(4,322)	571
Cash and Cash Equivalents - Beginning	339,408	338,837
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 335,086	\$ 339,408
Displayed on the Statement of Net Position as:		
Cash and Cash Equivalents	\$ 335,086	\$ 339,408
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (25,669)	\$ (4,676)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Increase in Claims Payable	21,224	5,158
Net Cash Provided (Used) by Operating Activities	\$ (4,445)	\$ 482

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2018**

	Private-Purpose Trust	OPEB Trust	Agency Funds
<b>ASSETS</b>			
Cash and Investments	\$ 81,880	\$ 12,611,857	\$ 894,993
Accounts Receivable	-	74	16,386
Total Assets	<u>81,880</u>	<u>12,611,931</u>	<u>\$ 911,379</u>
<b>LIABILITIES</b>			
Salaries and Payroll Deductions Payable	-	-	\$ 1,574
Accounts Payable and Due to Other Governments	-	-	908,389
Unearned Revenue	-	-	1,416
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 911,379</u>
<b>NET POSITION</b>			
Restricted for Payment of OPEB Benefits	-	12,611,931	
Restricted for Scholarships and Other Purposes	81,880	-	
Total Net Position	<u>\$ 81,880</u>	<u>\$ 12,611,931</u>	

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2018**

	Private-Purpose Trust	OPEB Trust
<b>ADDITIONS</b>		
Gifts and Donations	\$ 15,696	\$ -
Employer Contributions	-	299,412
Earnings on Investments	-	509,981
Total Additions	<u>15,696</u>	<u>809,393</u>
<b>DEDUCTIONS</b>		
Scholarships Awarded	9,532	-
Retirement Benefits	-	1,077,050
Administrative Costs	-	59,460
Total Deductions	<u>9,532</u>	<u>1,136,510</u>
<b>CHANGE IN NET POSITION</b>	6,164	(327,117)
Net Position - Beginning of Year	<u>75,716</u>	<u>12,939,048</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 81,880</u>	<u>\$ 12,611,931</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, 2018**

**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, 2018**

**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, 2018**

**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, 2018**

**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, 2018**

**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, 2018**

**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, 2018, cash and investments held by fiscal agent consist 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 are 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, 2018 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  
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JUNE 30, 2018**

**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, 2018, 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  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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  
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JUNE 30, 2018**

**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 2018 were \$770,954. A liability for severance and wellness benefits payable totaling \$3,826,610 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  
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JUNE 30, 2018**

**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 three items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type of deferred outflow is pension related as discussed in Note 7.

**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.

**MANKATO PUBLIC SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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.

V. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2017, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

**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, 2018**

**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, 2018 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  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

B. Investments (Continued)

At June 30, 2018, the District had the following investments:

<u>Investments Measured at Fair Value</u>	<u>Fair Value</u>
U.S. Treasuries	\$ 2,951,976
Federal Home Loan Bank	2,918,097
Federal National Mortgage Association	9,567,598
Mutual Funds	12,587,321
First Amer Govt Oblig Fund CI Z	24,517
Total Investments at Fair Value	<u>\$ 28,049,509</u>
<u>Investments Measured at Amortized Cost</u>	<u>Amortized Cost</u>
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 15,158,090
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	5,555,917
Total Investments at Amortized Cost	<u>\$ 20,714,007</u>

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:

	<u>Credit Risk</u>
US Treasuries	NR
Federal Home Loan Bank	AA+
Federal National Mortgage Association	AA+
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, 2018**

**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, 2018, the District's investments have the following maturities:

Type	Total	Maturity Duration in Years		
		Less Than 1	1 to 2	2 to 5
U.S. Treasury Notes	\$ 2,951,976	\$ 63,977	\$ 2,887,999	\$ -
Federal Home Loan Bank	2,918,097	-	2,918,097	-
Federal National Mortgage Association	9,567,598	-	9,567,598	-
Mutual Funds	12,587,321	12,587,321	-	-
MSDMAX	15,158,090	15,158,090	-	-
MSDLAF+	5,555,917	5,555,917	-	-
First Amer Govt Oblig Fund CI Z	24,517	24,517	-	-
Total	<u>\$ 48,763,516</u>	<u>\$ 33,389,822</u>	<u>\$ 15,373,694</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, 2018, 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
U.S. Treasuries	6.05%
Federal National Mortgage Association	19.62%
Mutual Fund - Baird Core	5.09%
Mutual Fund - Vanguard Intm	5.08%
MSDMAX	31.08%
MSDLAF+	11.39%

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

C. Balance Sheet Presentation

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

Deposits	\$ 8,417,069
Cash on Hand	1,190
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	15,158,090
Minnesota School District Liquid Asset Plus (MSDLAF+)	5,555,917
U.S. Treasuries	2,951,976
Federal Home Loan Bank	2,918,097
Federal National Mortgage Association	9,567,598
Mutual Funds	12,587,321
First Amer Govt Oblig Fund CI Z	24,517
	<u>\$ 57,181,775</u>
Cash and Investments - Statement of Net Position	\$ 28,152,223
Cash and Investments Held by Trustee - Statement of Net Position	15,440,822
Cash and Investments - Statement of Fiduciary Net Position	13,588,730
Total Cash and Investments	<u>\$ 57,181,775</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  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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
U.S. Treasury Notes	\$ 2,951,976	\$ -	\$ -	\$ 2,951,976
Federal Home Loan Bank	-	2,918,097	-	2,918,097
Federal National Mortgage Association	-	9,567,598	-	9,567,598
Mutual Funds	-	12,587,321	-	12,587,321
First Amer Govt Oblig CI Z	-	24,517	-	24,517
Total	<u>\$ 2,951,976</u>	<u>\$ 25,097,533</u>	<u>\$ -</u>	<u>\$ 28,049,509</u>

**MANKATO PUBLIC SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 6,710,561	\$ -	\$ -	\$ 6,710,561
Construction in Progress	10,483,845	6,779,163	(16,748,887)	514,121
Total Capital Assets, Not Being Depreciated	<u>17,194,406</u>	<u>6,779,163</u>	<u>(16,748,887)</u>	<u>7,224,682</u>
Capital Assets, Being Depreciated				
Land Improvements	10,919,027	50,100	-	10,969,127
Buildings and Improvements	126,783,090	15,476,603	-	142,259,693
Equipment	10,685,987	2,368,119	-	13,054,106
Total Capital Assets, Being Depreciated	<u>148,388,104</u>	<u>17,894,822</u>	<u>-</u>	<u>166,282,926</u>
Accumulated Depreciation for:				
Land Improvements	(2,667,558)	(522,042)	-	(3,189,600)
Buildings and Improvements	(43,233,834)	(3,592,642)	-	(46,826,476)
Equipment	(4,908,625)	(955,718)	-	(5,864,343)
Total Accumulated Depreciation	<u>(50,810,017)</u>	<u>(5,070,402)</u>	<u>-</u>	<u>(55,880,419)</u>
Total Capital Assets, Being Depreciated, Net	<u>97,578,087</u>	<u>12,824,420</u>	<u>-</u>	<u>110,402,507</u>
Governmental Activities Capital Assets, Net	<u>\$ 114,772,493</u>	<u>\$ 19,603,583</u>	<u>\$ (16,748,887)</u>	<u>\$ 117,627,189</u>

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

<b>Governmental Activities</b>	
Administration	\$ 27,895
District Support Services	4,759
Regular Instruction	4,634,617
Vocational Education Instruction	2,208
Special Education Instruction	4,890
Instructional Support Services	60,621
Pupil Support Services	37,829
Sites and Buildings	112,530
Food Service	167,787
Community Service	17,266
Total Depreciation Expense, Governmental Activities	<u>\$ 5,070,402</u>

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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	\$ 17,235,000	\$ 20,650,000
9/15/2009	2.0% - 3.5%	2009B	4,060,000	2012-2021	440,000	1,380,000
2/19/2014	4.00%	2014A	69,500,000	2015-2034	2,215,000	58,145,000
1/22/2015	0.65% - 2.5%	2015A	3,680,000	2017-2026	345,000	3,005,000
11/5/2015	2.0% - 2.75%	2015B	6,140,000	2020-2029	-	6,140,000
3/29/2016	2.0%	2016A	9,700,000	2020-2027	-	9,700,000
6/30/2016	1.3% - 2.15%	2016B	5,040,000	2019-2024	880,000	5,040,000
Total General Obligation Bonds					\$ 21,115,000	\$ 104,060,000
Bond Premiums					\$ 269,040	\$ 3,787,799
Capital Leases Payable					653,442	1,851,091
Severance and Health Benefits Payable					213,895	3,826,610
Compensated Absences Payable					559,228	657,915
Total					\$ 22,810,605	\$ 114,183,415

**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
2019	\$ 21,115,000	\$ 3,775,996
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
2024-2028	27,820,000	8,776,080
2029-2033	26,015,000	4,009,888
2034-2035	5,000,000	200,000
Total	\$ 104,060,000	\$ 27,109,419

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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 are 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.

**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 are 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.

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**NOTE 4 LONG-TERM LIABILITIES (CONTINUED)**

C. Description of Long-Term Liabilities (Continued)

**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 May 2016, the District entered into leases for Chrome laptops for students and staff. The leases are due in annual payments through July 2018. 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 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.

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.

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



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**NOTE 4 LONG-TERM LIABILITIES (CONTINUED)**

C. Description of Long-Term Liabilities (Continued)

**Capital Lease Payable (Continued)**

Total cost of assets under capital lease and the related accumulated depreciation is \$3,066,134 and \$789,426, respectively.

The following is a schedule of the future minimum principal and interest lease payments under the capital leases as of June 30, 2018:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 725,819
2020	347,424
2021	276,546
2022	157,706
2023	108,964
2024-2028	487,687
Total Minimum Lease Payments	2,104,146
Less: Amounts Representing Interest	253,055
Present Value of Net Minimum Lease Payments	\$ 1,851,091

**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.

**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, 2018, unpaid vacation totaling \$657,915 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, 2017	Additions	Retirements	June 30, 2018
Bonds Payable	\$ 114,340,000	\$ -	\$ 10,280,000	\$ 104,060,000
Bond Premiums	4,056,839	-	269,040	3,787,799
Bond Discount	(54,615)	-	(54,615)	-
Capital Leases Payable	1,657,296	893,912	700,117	1,851,091
Severance and Wellness Benefits Payable	4,376,872	220,691	770,953	3,826,610
Compensated Absences Payable	651,875	776,027	769,987	657,915
Total	\$ 125,028,267	\$ 1,890,630	\$ 12,735,482	\$ 114,183,415

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**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, 2018 was \$755,781. Some of these operating leases are funded through the lease levy.

Minimum rental commitments on leases in effect at June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 563,119
2020	450,669
2021	156,734
2022	161,436
2023	166,279
Total	<u>\$ 1,498,237</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.

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 Health and Safety

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

C. Restricted for Operating Capital

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

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**NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)**

D. Restricted for Bond Refundings

This restricted fund balance represents resources set aside from the proceeds of refunded obligations that have not met the criteria of defeasance. These resources will be used to pay off future bonded obligations.

E. Restricted for Learning and Development

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

F. Restricted for Community Education

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

G. Restricted for Early Childhood and Family Education

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

H. Restricted for Teacher Development and Evaluation

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

I. 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.

J. 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.

K. Restricted for Medical Assistance

Represents resources to be used for Medical Assistance expenditures.

L. Restricted for Other Purposes

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

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**NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)**

M. 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 defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA's and TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. PERA's and TRA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code.

**1. General Employees Retirement Plan (GERF)**

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**2. Teachers Retirement Fund (TRA)**

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

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

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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.

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

**TRA:** Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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

**1. GERF Benefits**

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

**2. TRA Benefits**

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

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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

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

**1. GERF Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in fiscal year 2018. In fiscal year 2018 the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2018, were \$1,140,829. The District's contributions were equal to the required contributions for each year as set by state statute.

**2. TRA Contributions**

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

	2018	
	Employee	Employer
Basic	11.0%	11.5%
Coordinate	7.5%	7.5%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2018, were \$3,596,690. 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, 2018, the District reported a liability of \$14,306,396 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund during the General Employees Fund's fiscal year 2017. 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 \$179,883. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. As of the June 30, 2017 measurement date, the District's proportion was 0.2241%. The District's proportionate share as of the June 30, 2016 measurement date was 0.2064%.

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**NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

**1. GERF Pension Costs (Continued)**

For the year ended June 30, 2018, the District recognized pension expense of \$1,754,596 for its proportionate share of GERF's pension expense. In addition, the District recognized \$5,195 as pension expense (and corresponding grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the General Employees' Fund.

At June 30, 2018, 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	\$ 471,496	\$ 920,366
Changes in Actuarial Assumptions	2,375,171	1,434,218
Net Difference Between Projected and Actual Earnings on Plan Investments	-	618,703
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	809,428	448,606
District Contributions Subsequent to the Measurement Date	1,140,829	-
Total	<u>\$ 4,796,924</u>	<u>\$ 3,421,893</u>

Of the resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$1,140,829 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year Ending June 30.</u>	Pension Expense Amount
2019	\$ (175,901)
2020	1,018,495
2021	(1,112)
2022	(607,280)
2023	-
Thereafter	-



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**NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

**2. TRA Pension Costs**

At June 30, 2018, the District reported a liability of \$166,261,949 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2017, 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 0.8329% at the end of the measurement period and 0.7877% 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	\$ 166,261,949
State's Proportionate Share of the Net Pension Liability Associated with the District	16,071,767

For the year ended June 30, 2018, the District recognized pension expense of \$29,792,654. It also recognized \$308,249 as pension expense for the support provided by direct aid.

At June 30, 2018, 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	\$ 1,252,005	\$ 1,167,520
Changes in Actuarial Assumptions	90,417,084	23,290,674
Net Difference Between Projected and Actual Earnings on Plan Investments	-	1,302,830
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	4,954,842	427,564
District Contributions Subsequent to the Measurement Date	3,596,690	-
Total	<u>\$ 100,220,621</u>	<u>\$ 26,188,588</u>

**MANKATO PUBLIC SCHOOLS  
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**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, \$3,596,690 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. 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>
2019	\$ 18,320,958
2020	21,163,431
2021	19,216,315
2022	15,898,547
2023	(4,163,908)
Thereafter	-

**3. Aggregate Pension Costs**

	<u>TRA</u>	<u>GERF</u>	<u>Total</u>
Net Pension Liability	\$ 166,261,949	\$ 14,306,396	\$ 180,568,345
Deferred Outflows of Resources	100,220,621	4,796,924	105,017,545
Deferred Inflows of Resources	26,188,588	3,421,893	29,610,481
Pension Expense	30,100,903	1,759,791	31,860,694

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, 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	3.25% per Year	2.85 - 9.25%
Investment Rate of Return	7.50%	5.12%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for the proper group, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.0% per year for all future years for the General Employees Plan. Cost of living benefit increases for retirees are assumed to be 2.0% per year for all future years for the TRA.

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

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**NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions (Continued)

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

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested deferred members. The revised CSA loads are now 0.0% 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.

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

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the nonvested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

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**NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the General Employee's Fund and 5.12% for TRA. For TRA, this was an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in Minnesota Statutes.

Based on PERA's assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Based on TRA's assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.1%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

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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	\$ 22,190,283	\$ 14,306,396	\$ 7,852,002
<u>TRA Discount Rate</u>	4.12%	5.12%	6.12%
District's Proportionate Share of the TRA Net Pension Liability	\$ 219,433,735	\$ 166,261,949	\$ 121,431,664

H. Pension Plan Fiduciary Net Position

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

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

**NOTE 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, 2018, 2017, and 2016 are \$758,263, \$718,510, and \$692,907, respectively. The related employee contributions were \$1,765,874, \$1,398,349, and \$1,574,951 for the years ended June 30, 2018, 2017, and 2016, respectively.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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 717 active participants and 93 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 2018, total contributions to the plan were \$299,412.

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, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 3.49%. 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, 2018 were as follows:

Total OPEB Liability	\$ 20,422,571
Plan Fiduciary Net Position	12,611,931
District's Net OPEB Liability	<u>\$ 7,810,640</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	61.75%

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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, 2018 documents the Plan's fiscal year 2018 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, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016. 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, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry age normal
Amortization Method	Open, level dollar mount
Inflation	2.75%
Salary Increases	3.50%
Investment Rate of Return	5.50%
20-Year Municipal Bond Yield	3.62%
Health Care Trend Rates	6.50% grading to 4.40% in 2076

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

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2017.

Health care cost trend rates used actual rates for fiscal year 2017 and 2018 and 6.50% for fiscal year 2019, gradually decreasing over several decades to an ultimate rate of 4.40% 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 2022 for plans other than Medicare plans.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

E. Actuarial Methods and Assumptions (Continued)

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 (2.75%).

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	Long-Term Expected Real Rate of Return	Long-Term Expected Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic Equity	20.00%	5.39%	8.14 %
International Equity	10.00%	5.20%	7.95
Fixed Income	70.00%	1.98%	4.73
Real Estate and Alternatives	0.00%	4.25%	7.00
Cash and Equivalents	0.00%	0.79%	3.54
Total			6.00
Reduced for Assumed Investment Expense			(0.50)
Net Assumed Investment Return (Weighted Avg Rounded to 1/4%)			5.50 %

The discount rate used to measure the total OPEB liability was 4.14%. 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 3.62% 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.

Since the most recent GASB 45 valuation, the following changes have been made:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The discount rate was changed from 4.99% to 4.14%.
- The expected long-term rate of return on assets was changed from 6.00% to 5.50%.
- The index rate for 20-year, tax-exempt municipal bonds was changed from 3.53% to 3.62%.



**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

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, 2017	\$ 19,189,615	\$ 12,939,048	\$ 6,250,567
Changes for the Year:			
Service Cost	943,846	-	943,846
Interest	977,787	-	977,787
Changes in Assumptions Differences Between Expected and Actual Experience	388,373	-	388,373
Contributions-Employer	-	299,412	(299,412)
Net Investment Income	-	450,521	(450,521)
Benefit Payments	(1,077,050)	(1,077,050)	-
Administrative Expense	-	-	-
Net Changes	<u>1,232,956</u>	<u>(327,117)</u>	<u>1,560,073</u>
Balances at June 30, 2018	<u>\$ 20,422,571</u>	<u>\$ 12,611,931</u>	<u>\$ 7,810,640</u>

**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 (3.14%) or one percentage point higher (5.14%) than the current discount rate:

	1% Decrease (3.14%)	Current Discount Rate (4.14%)	1% Increase (5.14%)
Net OPEB Liability (Asset)	\$ 9,251,822	\$ 7,810,640	\$ 6,446,237

**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 (5.50% decreasing to 3.40%) or one percentage point higher (7.50% decreasing to 5.40%) than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease (5.50% grading to 3.40%)	Current Trend (6.50% grading to 4.40%)	1% Increase (7.50% grading to 5.40%)
Net OPEB Liability (Asset)	\$ 5,760,392	\$ 7,810,640	\$ 10,213,036

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

F. Changes in Net OPEB Liability (Continued)

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,252,132. At June 30, 2018, 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	\$ -	\$ -
Change of Assumptions	348,002	-
Net Difference Between Projected and Actual Investment Earnings	259,351	-
Contributions Between Measurement Date and Reporting Date	N/A	N/A
Total	<u>\$ 607,353</u>	<u>\$ -</u>

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

Year Ending June 30,	Future Recognition
2019	\$ 105,209
2020	105,209
2021	105,209
2022	105,209
2023	40,371
Thereafter	146,146
Total	<u>\$ 607,353</u>

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

F. Changes in Net OPEB Liability (Continued)

**Trust Funds**

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

<b>ASSETS</b>	
Cash and Investments	\$ 12,611,857
Other Assets	74
Total Assets	12,611,931
<b>LIABILITIES</b>	
	-
<b>NET POSITION</b>	
Held in Trust for Payment of OPEB Benefits	\$ 12,611,931
<b>ADDITIONS</b>	
Employer Contributions	\$ 299,412
Earnings on Investments	509,981
Total Additions	809,393
<b>DEDUCTIONS</b>	
Retirement Benefits	1,077,050
Administrative Costs	59,460
Total Deductions	1,136,510
Change in Net Position	(327,117)
Net Position - Beginning of Year	12,939,048
Net Position - End of Year	\$ 12,611,931

**NOTE 10 STEWARDSHIP AND ACCOUNTABILITY**

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Expenditures	Excess
General Fund	\$ 100,216,710	\$ 103,962,401	\$ 3,745,691
Special Revenue Funds:			
Food Service Fund	4,501,567	4,649,949	148,382
Debt Service Fund	9,202,894	9,638,300	435,406

These additional expenditures were paid for with available fund balance.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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 \$690,665 for the year ended June 30, 2018.

The liability for unpaid claims included in the Internal Service Fund as claims payable for 2018 and the preceding year were:

	2018	2017
Beginning of Fiscal Year Liability - July 1,	\$ 319,980	314,822
Incurred Claims	631,989	549,871
Claims Payments	(610,765)	(544,713)
End of Fiscal Year Liability - June 30,	\$ 341,204	\$ 319,980

**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.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

A. 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.

B. Construction Commitments

As of June 30, 2018, the District had entered in various construction contracts for the construction and betterment of school facilities. Total remaining commitments under these contracts were \$4,561.

**NOTE 14 CHANGE IN ACCOUNTING PRINCIPLE**

During fiscal year ended June 30, 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This pronouncement requires the restatement of the June 30, 2017 net position of the governmental activities.

As a result, the District's net position as of June 30, 2017 has been restated to reflect the recognition of the restated net OPEB liability:

<u>Description</u>	<u>Governmental Activities</u>
Net Position, June 30, 2017, as Previously Reported	\$ (43,316,572)
Cumulative Affect of Application of GASB 75, Revaluation of Net OPEB Liability (Asset)	<u>(10,206,878)</u>
Net Position, July 1, 2017, as Restated	<u><u>\$ (53,523,450)</u></u>

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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, 2018**

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

\*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**

<b>Total OPEB Liability</b>	2018	2017
Service Cost	\$ 943,846	\$ 943,134
Interest	977,787	898,557
Changes in Benefit Terms	-	-
Differences Between Expected and Actual Experience	-	-
Changes of Assumptions	388,373	(481,998)
Benefit Payments	(1,077,050)	(1,184,802)
<b>Net Change in Total OPEB Liability</b>	1,232,956	174,891
<b>Total OPEB Liability - Beginning</b>	19,189,615	19,014,724
<b>Total OPEB Liability - Ending (a)</b>	\$ 20,422,571	\$ 19,189,615
 <b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 299,412	\$ 320,614
Net Investment Income	450,521	711,440
Benefit Payments	(1,077,050)	(1,184,802)
Administrative Expenses	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	(327,117)	(152,748)
<b>Plan Fiduciary Net Position - Beginning</b>	12,939,048	13,091,796
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 12,611,931	\$ 12,939,048
 <b>District's Net OPEB Liability (Asset) - Ending (a) - (b)</b>		
	\$ 7,810,640	\$ 6,250,567
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	61.75%	67.43%
Covered-Employee Payroll for Measurement Period	\$ 59,407,039	\$ 59,764,196
District's Net OPEB Liability (Asset) as a Percentage of Covered-Employee Payroll	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 health care trend rates were changed to better anticipate short term and long term medical increases. The discount rate was changed from 4.99% to 4.14%. The expected long-term rate of return on assets was changed from 6.00% to 5.50%. The index rate for 20-year, tax-exempt municipal bonds was changed from 3.53% to 3.62%.
Discount Rate:	
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 FOUR MEASUREMENT DATES**

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

	Measurement Date June 30,			
	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.2241%	0.2064%	0.2120%	0.2340%
District's Proportionate Share of the Net Pension Liability	\$ 14,306,396	\$ 16,758,656	\$ 10,997,305	\$ 10,968,660
State's Proportionate Share of the Net Pension Liability Associated with District	179,883	218,879	-	-
Total	<u>\$ 14,486,279</u>	<u>\$ 16,977,535</u>	<u>\$ 10,997,305</u>	<u>\$ 10,968,660</u>
District's Covered Payroll	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	98.72%	131.58%	88.29%	89.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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,			
	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.8329%	0.7877%	0.7650%	0.8070%
District's Proportionate Share of the Net Pension Liability	\$ 166,261,949	\$ 187,885,245	\$ 47,341,374	\$ 37,204,411
State's Proportionate Share of the Net Pension Liability Associated with District	16,071,767	18,859,548	5,807,065	2,617,282
Total	<u>\$ 182,333,716</u>	<u>\$ 206,744,793</u>	<u>\$ 53,148,439</u>	<u>\$ 39,821,693</u>
District's Covered Payroll	\$ 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	369.07%	458.54%	121.87%	100.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 FIVE FISCAL YEARS**

**GERF Schedule of District Contributions**

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
Statutorily Required Contribution	\$ 1,140,829	\$ 1,086,458	\$ 955,191	\$ 920,485	\$ 888,582
Contributions in Relation to the Statutorily Required Contribution	(1,140,829)	(1,086,458)	(955,191)	(920,485)	(888,582)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 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%	7.39%	7.25%

**TRA Schedule of District Contributions**

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

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

## **SUPPLEMENTARY INFORMATION**

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**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF CHANGES IN FUND EQUITIES  
YEAR ENDED JUNE 30, 2018**

	Fund Equities June 30, 2017	Revenues	Expenditures	Other Financing Sources (Uses)	Transfers	Fund Equities June 30, 2018
<b>GOVERNMENTAL FUNDS</b>						
General Fund:						
Nonspendable	\$ 43,001	\$ -	\$ -	\$ -	\$ 12,462	\$ 55,463
Restricted for Staff Development	401,083	1,149,770	(1,285,939)	-	-	264,914
Restricted for Health and Safety	97,895	-	(101,305)	-	3,410	-
Restricted for Operating Capital	1,126,782	3,260,270	(4,062,689)	-	-	324,363
Restricted for Learning and Development	811,082	2,066,638	(2,491,011)	-	-	386,709
Restricted for Gifted and Talented	-	120,774	(310,765)	-	189,991	-
Restricted for Teacher Development and Evaluation	78,280	-	(35,451)	-	-	42,829
Restricted for Basic Skills	-	4,298,448	(5,277,135)	-	978,687	-
Restricted for Career and Technical Programs	-	285,641	(841,161)	-	555,520	-
Restricted for Safe Schools - Crime	-	358,171	(449,057)	-	90,886	-
Restricted for Long-Term Facilities Maintenance	-	2,735,720	(3,189,352)	-	453,632	-
Restricted for Basic Skills Extended Time	-	67,065	(67,065)	-	-	-
Restricted for Medical Assistance	876,969	1,129,390	(181,683)	-	-	1,824,676
Assigned for Separation/Retirement Benefits	690,000	-	-	-	-	690,000
Unassigned	9,943,573	83,381,914	(85,669,788)	893,912	(2,284,588)	6,265,023
Total General Fund	14,068,665	98,853,801	(103,962,401)	893,912	-	9,853,977
Food Service Fund:						
Nonspendable	47,126	-	-	-	16,795	63,921
Restricted for Food Service	1,172,676	4,577,680	(4,649,949)	-	(16,795)	1,083,612
Total Food Service	1,219,802	4,577,680	(4,649,949)	-	-	1,147,533
Community Service Fund:						
Nonspendable	-	-	-	-	-	-
Restricted for Community Education	342,913	3,765,251	(4,222,766)	-	114,602	-
Restricted for E.C.F.E.	730,783	546,072	(419,010)	-	-	857,845
Restricted for School Readiness	489,848	731,218	(564,261)	-	-	656,805
Restricted for Adult Basic Education	110,494	1,258,321	(1,253,080)	-	-	115,735
Restricted for Community Service	-	206,678	(211,678)	5,000	-	-
Unassigned	-	-	-	-	(114,602)	(114,602)
Total Community Service Fund	1,674,038	6,507,540	(6,670,795)	5,000	-	1,515,783
Capital Projects Fund:						
Restricted for Capital Projects	4,266,765	49,571	(4,316,336)	-	-	-
Total Capital Projects Fund	4,266,765	49,571	(4,316,336)	-	-	-
Debt Service Fund:						
Restricted for Bond Refundings	15,746,298	139,616	(352,333)	-	-	15,533,581
Restricted for Debt Service	901,374	8,163,315	(8,169,442)	-	-	895,247
Total Debt Service Fund	16,647,672	8,302,931	(8,521,775)	-	-	16,428,828
OPEB Debt Service Fund:						
Restricted for Bond Refundings	4,938,966	-	-	-	(4,938,966)	-
Restricted for OPEB Debt Service	283,693	1,029,269	(1,116,525)	(4,885,000)	4,938,966	250,403
Total OPEB Debt Service Fund	5,222,659	1,029,269	(1,116,525)	(4,885,000)	-	250,403
<b>TOTAL GOVERNMENTAL FUNDS</b>	<b>43,099,601</b>	<b>119,320,792</b>	<b>(129,237,781)</b>	<b>(3,986,088)</b>	<b>-</b>	<b>29,196,524</b>
<b>FIDUCIARY FUNDS</b>						
Trust Fund:						
Restricted for Scholarships and Other Purposes	75,716	15,696	(9,532)	-	-	81,880
OPEB Trust Fund:						
Restricted for Payment of OPEB Benefits	12,939,048	809,393	(1,136,510)	-	-	12,611,931
<b>TOTAL FIDUCIARY FUNDS</b>	<b>13,014,764</b>	<b>825,089</b>	<b>(1,146,042)</b>	<b>-</b>	<b>-</b>	<b>12,693,811</b>
<b>PROPRIETARY FUNDS</b>						
Internal Service Fund						
Unrestricted	19,428	665,119	(690,665)	-	-	(6,118)
<b>TOTAL PROPRIETARY FUNDS</b>	<b>19,428</b>	<b>665,119</b>	<b>(690,665)</b>	<b>-</b>	<b>-</b>	<b>(6,118)</b>
<b>TOTAL ALL FUNDS</b>	<b>\$ 56,133,793</b>	<b>\$ 120,811,000</b>	<b>\$ (131,074,488)</b>	<b>\$ (3,986,088)</b>	<b>\$ -</b>	<b>\$ 41,884,217</b>

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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, 2018**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Education			
National School Lunch Program			
Noncash Assistance (Commodities):	a	10.555	1-077-000
Cash Assistance:			
School Breakfast Program	a	10.553	1-077-000
National School Lunch Program	a	10.555	1-077-000
National School Lunch Program - Commodity Cash Rebate	a	10.555	1-077-000
After School Snack	a	10.555	1-077-000
Special Milk Program for Children	a	10.556	1-077-000
Summer Food Service Program For Children	a	10.559	1-077-000
Total U.S. Department of Agriculture			<u>\$ 283,805</u>
<b>U.S. Department of Education</b>			
Passed Through Minnesota Department of Education			
Adult Basic Education State Grant Program	b	84.002	**
ABE EL - Civics Competition Allocation	b	84.002	**
Title I, Part A - Grants to Local Educational Agencies		84.010	**
Special Education Grants to States	c	84.027	**
Special Education Preschool Grants	c	84.173	**
Special Education Grants for Infants and Families With Disabilities	d	84.181	**
Title III, Part A - English Language Acquisition Grants		84.365	**
Title II, Part A - Supporting Effective Instruction State Grants		84.367	**
Total Passed Through Minnesota Department of Education			<u>103,180</u>
Passed Through South Central Service Cooperative			
IDEA, Part C - Regional IEIC Grant for Children Ages 0-2	d	84.181	**
Career and Technical Education - Basic Grants to States		84.048	**
Total Passed Through South Central Service Cooperative			<u>99,397</u>
Total U.S. Department of Education			<u>1,552,025</u>
<b>U.S. Department of Labor</b>			
Passed Through South Central Workforce Council			
TAACCCT Grant Career Pathways		17.282	**
Total Federal Awards Expended			<u>\$ 6,337,613</u>

\*\* - Pass-through number unavailable

a Child Nutrition Cluster Total Expenditures = \$2,552,006

b Adult Basic Education Cluster Total Expenditures = \$202,577

c Special Education Cluster Total Expenditures = \$1,611,504

d Early Intervention Cluster Total Expenditures = \$70,029

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

**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, 2018. 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, 2018, 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 November 19, 2018.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item number 2018-001, that we consider to be a significant deficiency.

### **Compliance and Other Matters**

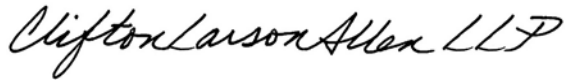
As part of obtaining reasonable assurance about whether Independent School District No. 77's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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  
November 19, 2018



**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, 2018. 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, 2018.

**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 2018-002. 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 2018-002, 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  
November 19, 2018

## 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, 2018, and the related notes to the financial statements and have issued our report thereon dated November 19, 2018.

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*, except as described in the Schedule of Findings and Recommendations as items 2018-003. 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.

Independent School District No. 77's written response to the legal compliance findings identified in our audit are 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**

Minneapolis, Minnesota  
November 19, 2018

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

***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? \_\_\_\_\_ yes        x   no
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?   x   yes      \_\_\_\_\_ 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)**

10.553, 10.555, 10.556, 10.559

**Name of Federal Program or Cluster**

Child Nutrition Cluster

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

\$   750,000  

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes        x   no

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

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***Section II – Findings Related to the General Purpose Financial Statements***

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**Finding 2018 – 001– Food Service Fund Inventory Procedures and Controls**

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

**Condition:** During our Food Service Fund inventory audit procedures, we noted variances in the counts of 5 of 11 items that we selected for inventory observation and count procedures. Most of the variances came about due to errors in the number of individual items in a case of certain inventory in the District's calculations.

**Criteria or specific requirement:** The District should have procedures and controls in place to ensure that the counts and values recorded for the Food Service Fund ending inventory are accurate.

**Context:** Variances in counts were noted in 5 of the 11 items that were haphazardly selected for testing based on statistical sampling techniques. The total dollar value of the variances in these 5 items in our sample was \$2,856, which was clearly trivial to the Food Service fund. The projected variance to the population was more than clearly trivial, but less than material to the Food Service Fund.

**Effect:** Inadequate controls related to Food Service Fund inventory could result in errors or the misappropriation of inventory assets going undetected or not being detected and corrected in a timely manner.

**Cause:** There was turnover in District staff during fiscal year 2018.

**Repeat Finding:** No.

**Recommendation:** We recommend that the District review its procedures and controls related to Food Service Fund inventory so that they are adequate to ensure that the counts and values recorded for the Food Service Fund ending inventory are accurate. This would include completing an inventory as close to year-end as possible, as well as review of the inventory counts by management, and a review of the counts used in the calculations for the amounts put into the trial balance to ensure they tie to the count sheets from the year-end inventory procedures by someone other than the person that did the calculations and entries into the general ledger.

**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, 2018**

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***Section III – Federal Awards Findings and Questioned Costs***

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**Finding 2018 – 002 – Child Nutrition Cluster Reporting**

Federal agency: U.S. Department of Agriculture

Federal program title: Child Nutrition Cluster

CFDA Number: 10.553, 10.555, 10.556, and 10.559

Pass-Through Agency: Minnesota Department of Agriculture

Pass-Through Number: 1-077-000

Award Period: Year ended June 30, 2018

Type of Finding:

- Significant Deficiency in Internal Control over Compliance

**Criteria or specific requirement:** During the school year, at the end of each month the District is to accurately submit CLICS meal count reports summarizing all eligible meals served.

**Condition:** During our testing, we noted errors in 2 of the 10 months in which the District reported in CLICS in fiscal year 2018. The errors in the meal counts reports were in the months of February and March. The errors resulted in regular meal counts being overstated slightly, while free meals were significantly understated. Therefore, the District under claimed these revenues. As the errors were noted by the District after the 60 day after month-end deadline set by the state of Minnesota, these counts could not be revised.

**Questioned costs:** None

**Context:** During our testing, we noted errors in 2 of the 10 months in which the District reported in CLICS in fiscal year 2018. The errors in the meal counts reports were in the months of February and March.

**Cause:** Turnover in District staff during fiscal year 2018.

**Effect:** Lack of proper controls over the CLICS meal count reports could result in errors in the reports going undetected, or not being detected and corrected in a timely manner.

**Repeat Finding:** No.

**Recommendation:** In order to ensure accurate meal counts reports going forward, it was noted that the District hired new full time staff and implemented procedures and controls related to the CLICS meal count reports starting in April of 2018.

**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, 2018**

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***Section IV – Minnesota Legal Compliance Findings***

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**Finding 2018-003 – Timely Payment of Bills**

- Criteria:** Minnesota Statute 471.425 Subdivision 2 notes that a district must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period unless the district in good faith disputes the obligation. Standard payment period is defined for the District as being within 35 days of the date of receipt of the invoice. Subdivision 4 of the same statute notes that if late payment is made interest should be paid upon the amount that is being paid late.
- Condition:** It was noted that 1 of the 22 disbursements tested were not paid within the required payment period, and no interest was included in the late payment to the vendor.
- Cause:** No known reason.
- Effect:** The District was not in compliance with this statute during the fiscal year ending June 30, 2018.
- Recommendation:** We recommend that the District put in place internal controls that will prevent any late payments from occurring going forward.

**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, 2019.

**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, 2018**

	AUDIT	UFARS	DIFFERENCE		AUDIT	UFARS	DIFFERENCE
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$ 98,853,801	\$ 98,853,801	\$ -	Total Revenue	\$ 49,571	\$ 49,571	\$ -
Total Expenditures	103,962,401	103,962,404	(3)	Total Expenditures	4,316,336	4,316,336	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	55,463	55,463	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	264,914	264,914	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	(3,410)	(3,410)	-	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	-	-	-	<b>07 DEBT SERVICE</b>			
417 Taconite Building Maintenance	-	-	-	Total Revenue	8,302,931	8,302,930	1
424 Operating Capital	324,363	324,364	(1)	Total Expenditures	8,521,775	8,521,775	-
426 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable Fund Balance	-	-	-
428 Learning and Development	386,709	386,709	-	<i>Restricted:</i>			
434 Area Learning Center	-	-	-	425 Bond Refunding	15,533,581	15,533,581	-
435 Contracted Alternative Programs	-	-	-	451 QZAB and QSCB Payments	-	-	-
436 State-Approved Alternative Programs	-	-	-	464 Restricted Fund Balance	895,247	895,246	1
438 Gifted and Talented	-	-	-	<i>Unassigned:</i>			
440 Teacher Development and Evaluations	42,829	42,829	-	463 Unassigned Fund Balance	-	-	-
441 Basic Skills Programs	-	-	-				
445 Career and Technical Programs	-	-	-	<b>08 TRUST</b>			
448 Achievement and Integration	-	-	-	Total Revenue	15,696	15,695	1
449 Safe Schools Crime Levy	(300,000)	(300,000)	-	Total Expenditures	9,532	9,532	-
451 QZAB Payments	-	-	-	<i>Net Position:</i>			
452 OPEB Liability Not Held in Trust	-	-	-	422 Net Position	81,880	81,880	-
453 Unfunded Severance & Retirement Levy	-	-	-				
464 Restricted Fund Balance	-	-	-	<b>20 INTERNAL SERVICE</b>			
467 LTFM	(719,776)	(719,776)	-	Total Revenue	665,119	665,119	-
472 Medical Assistance	1,824,676	1,824,676	-	Total Expenditures	690,665	690,665	-
<i>Committed:</i>				<i>Net Position:</i>			
418 Committed for Separation	-	-	-	422 Net Position	(6,118)	(6,118)	-
461 Committed Fund Balance	-	-	-				
<i>Assigned:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
452 Assigned Fund Balance	690,000	690,000	-	Total Revenue	-	-	-
<i>Unassigned:</i>				Total Expenditures	-	-	-
422 Unassigned Fund Balance	7,288,209	7,288,206	3	<i>Net Position:</i>			
				422 Net Position	-	-	-
<b>02 FOOD SERVICE</b>							
Total Revenue	4,577,680	4,577,676	4	<b>45 OPEB IRREVOCABLE TRUST</b>			
Total Expenditures	4,649,949	4,649,946	3	Total Revenue	809,393	809,393	-
<i>Nonspendable:</i>				Total Expenditures	1,136,510	1,136,510	-
460 Nonspendable Fund Balance	63,921	63,921	-	<i>Net Position:</i>			
<i>Restricted:</i>				422 Net Position	12,611,931	12,611,931	-
452 OPEB Liability Not Held in Trust	-	-	-				
464 Restricted Fund Balance	1,083,612	1,083,611	1	<b>47 OPEB DEBT SERVICE</b>			
<i>Unassigned:</i>				Total Revenue	1,029,269	1,029,269	-
463 Unassigned Fund Balance	-	-	-	Total Expenditures	1,116,525	1,116,525	-
				<i>Nonspendable:</i>			
<b>04 COMMUNITY SERVICE</b>				460 Nonspendable Fund Balance	-	-	-
Total Revenue	6,507,540	6,507,537	3	<i>Restricted:</i>			
Total Expenditures	6,670,795	6,670,792	3	425 Bond Refunding	-	-	-
<i>Nonspendable:</i>				464 Restricted Fund Balance	250,403	250,403	-
460 Nonspendable Fund Balance	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				463 Unassigned Fund Balance	-	-	-
426 \$25 Taconite	-	-	-				
431 Community Education	(114,602)	(114,602)	-				
432 E.C.F.E.	857,845	857,845	-				
440 Teacher Development and Evaluations	-	-	-				
444 School Readiness	656,805	656,805	-				
447 Adult Basic Education	115,735	115,735	-				
452 OPEB Liability Not Held in Trust	-	-	-				
464 Restricted Fund Balance	-	-	-				
<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, 2018, 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, 2018, 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, 2018, 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  
November 19, 2018

**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, 2018**

	Balance 6/30/2017	Receipts	Disbursements and Transfers	Balance 6/30/2018
<b>WEST HIGH</b>				
Academic Athletic	\$ 710	\$ 310	\$ 355	\$ 665
AVID 11/12	12	-	12	-
Band	1,916	98,458	99,857	517
Boys Cross Country	1,491	1,690	1,690	1,491
Boys Soccer	2,176	1,042	2,937	281
Boys Swimming and Dive	398	-	-	398
Boys Track and Field	297	492	-	789
Choir	12,850	53,113	53,636	12,327
Distributive Education Club of America	3,845	3,178	4,088	2,935
Drama Fund	25,153	15,276	9,259	31,170
Fashions NY	948	-	-	948
Football Fund	4,938	17,883	8,969	13,852
French Language	400	150	405	145
German Language	-	3,500	-	3,500
Girls and Boys Tennis	460	-	-	460
Girls Cross Country	-	-	(25)	25
Girls Gymnastics	10	-	10	-
Girls Hockey	812	2,300	1,817	1,295
Girls Soccer	8,700	1,627	3,992	6,335
Girls Swimming and Dive	2,953	150	-	3,103
History Club	-	1,550	758	792
Hockey Clinic	2,422	-	1,199	1,223
Interest	321	2,069	-	2,390
Key Club	528	2,717	2,478	767
Knowledge Bowl	307	-	-	307
Language Club	109	-	-	109
National Honor Society	2,131	1,825	1,636	2,320
Orchesis	12,207	9,107	9,166	12,148
Orchestra	3,353	35,538	37,152	1,739
OTAK Projects	26,921	4,261	6,459	24,723
Photo/Art Field Trips	117	882	479	520
Prom Fund	6,809	7,879	6,750	7,938
Hall of Fame	1	1,403	1,403	1
Scarlet School Store	-	1,104	806	298
Senior Class	57	-	-	57
Senior Science	491	670	664	497
Shine	-	300	299	1
Speech	402	1,113	35	1,480
Student Council	5,521	3,815	2,070	7,266
Summer Athletic Camp - Boys	435	2,741	2,778	398
Summer Athletic Camp - Girls	339	6,444	6,743	40
Valley Fair Fund	363	21	384	-
Volleyball	316	1,479	1,343	452
Washington DC Trip	1	-	1	-

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, 2018**

	Balance 6/30/2017	Receipts	Disbursements and Transfers	Balance 6/30/2018
<b>WEST HIGH (CONTINUED)</b>				
West Connection	\$ 18	\$ -	\$ 18	\$ -
Wrestling	7	-	7	-
Yell Club	9	-	9	-
Vex Robotics	11,305	34,993	43,889	2,409
Girls Track and Field	691	1,203	471	1,423
Girls Lacrosse	1,617	-	82	1,535
<b>TOTAL WEST HIGH</b>	<b>144,867</b>	<b>320,283</b>	<b>314,081</b>	<b>151,069</b>
<b>EAST HIGH</b>				
Arboretum Project	3,341	-	538	2,803
Art Club	693	1,110	1,459	344
Astronomy Club	1,054	186	162	1,078
AVID Club	303	-	-	303
Band	7,358	50,923	49,848	8,433
Baseball Fund	2,783	4,093	2,247	4,629
Boys Basketball	3,256	14,468	16,544	1,180
Boys Cross Country	1,730	1,978	1,445	2,263
Boys Golf	1	2,827	2,770	58
Boys Hockey Fund	-	300	150	150
Boys Lacrosse	2,069	680	2,073	676
Boys Soccer	2,291	1,920	2,073	2,138
Boys Tennis	477	201	36	642
Boys and Girls Swim Fund	595	3,117	2,212	1,500
Choir	29,121	84,607	105,379	8,349
Climbing Wall	292	-	-	292
Dance Company	1,962	5,190	6,063	1,089
DECA Conference	98	-	-	98
Distributive Education Club of America	7,259	11,129	12,681	5,707
Drama Fund	8,626	9,159	11,855	5,930
Fashion Travel	552	-	-	552
Football	3,702	9,945	8,733	4,914
Future Homemakers of America	92	-	-	92
Girls Basketball	1,893	16,302	18,189	6
Girls Cross Country	307	646	911	42
Girls Golf	1,376	200	106	1,470
Girls Hockey	4,203	13,390	12,189	5,404
Girls Soccer	3,441	2,819	2,399	3,861
Girls Softball	2,331	4,095	2,754	3,672
Girls Swim	1,354	3,901	3,378	1,877
Girls Tennis	123	1,251	782	592
Gymnastics	1,603	934	1,313	1,224
GSA	20	-	20	-
Hall of Fame	400	12,880	13,276	4
Interest, Student Investment	421	2,068	-	2,489

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, 2018**

	Balance 6/30/2017	Receipts	Disbursements and Transfers	Balance 6/30/2018
<b>EAST HIGH (CONTINUED)</b>				
Key Club	\$ 1,463	\$ 550	\$ 828	\$ 1,185
Knowledge Bowl	574	1,190	849	915
"M" Club	3,206	5,299	6,015	2,490
Math League	409	-	285	124
National Honor Society	1,540	800	368	1,972
Orchestra	3,419	36,424	30,009	9,834
Outdoor Education	507	3,147	3,288	366
Photo Club	1,605	-	-	1,605
Physics	169	4,625	4,504	290
Prom Fund	5,553	12,853	11,245	7,161
Prostart	-	1,175	1,090	85
SADD	988	-	-	988
Senior Class	1,018	125	666	477
Shine	-	817	311	506
Social Studies	156	-	-	156
Speech/Debate	1,806	2,390	2,226	1,970
SPIRIT	19,406	4,958	4,545	19,819
Student Council	548	2,453	2,878	123
Table Tennis	246	-	-	246
Track and Field	996	10,042	3,837	7,201
VEX Robotics	2,057	23,488	15,997	9,548
Volleyball	3,766	4,844	5,461	3,149
World Language Club	1,955	7,015	6,938	2,032
Wrestling Fund	5,019	3,916	7,896	1,039
XYZ Club	93	-	85	8
Youth Services	68	-	-	68
<b>TOTAL EAST HIGH</b>	<u>151,694</u>	<u>386,430</u>	<u>390,906</u>	<u>147,218</u>
<b>PRAIRIE WINDS MIDDLE SCHOOL</b>				
Black 7 Team	1,332	562	-	1,894
Black 8 Team	1,328	562	260	1,630
Gold 7 Team	1,580	562	44	2,098
Gold 8 Team	1,229	562	251	1,540
Junior High Science Club	215	-	-	215
Junior High Activity	2,951	153	625	2,479
Junior High Author Day	478	-	66	412
Junior High Choir	1,101	-	-	1,101
Junior High Project Right Start	3,654	950	204	4,400
Junior High Student Council	1,472	1,933	1,166	2,239
Junior High Yearbook	3,244	2,413	1,030	4,627
Tech Ed	2,588	1,350	1,081	2,857
<b>TOTAL PRAIRIE WINDS MIDDLE SCHOOL</b>	<u>21,172</u>	<u>9,047</u>	<u>4,727</u>	<u>25,492</u>

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, 2018**

	Balance 6/30/2017	Receipts	Disbursements and Transfers	Balance 6/30/2018
<b>DAKOTA MEADOWS MIDDLE SCHOOL</b>				
Dakota Meadows Student Recognition	\$ 8,714	\$ 1,786	\$ 502	\$ 9,998
Dakota Meadows Diversity Program	202	-	-	202
Dakota Meadows Author Day	651	-	-	651
Dakota Meadows Band	135	411	408	138
Dakota Meadows Choir Fund	600	-	-	600
Dakota Meadows Courage Retreat	16	-	-	16
Dakota Meadows Drama Club	405	-	-	405
Dakota Meadows Kasota Trail	477	-	24	453
Dakota Meadows Mankato Trail	1,265	45	-	1,310
Dakota Meadows Mendota Trail	-	580	-	580
Dakota Meadows Minneopa Trail	1,333	-	768	565
Dakota Meadows Minnesota Trail	250	580	-	830
Dakota Meadows Orchestra	10	-	-	10
Dakota Meadows Sakatah Trail	982	1,860	365	2,477
Dakota Meadows Science Club	386	-	-	386
Dakota Meadows Sixth Grade Transition	1,980	1,115	102	2,993
Dakota Meadows Student Council	1,708	1,280	1,563	1,425
Dakota Meadows Student Funds	10,696	5,478	5,553	10,621
Dakota Meadows Yearbook	4,747	94	730	4,111
<b>TOTAL DAKOTA MEADOWS MIDDLE SCHOOL</b>	<b>34,557</b>	<b>13,229</b>	<b>10,015</b>	<b>37,771</b>
<b>OTHER</b>				
Adult Education Store	1,326	4,241	3,041	2,526
Bridges	98	-	-	98
Central High School Store	167	1,004	952	219
Day Treatment	4,299	-	1,579	2,720
Debate	5,055	1,951	1,261	5,745
District Science Boards	-	1,484	1,484	-
Eagle Lake Elementary	2,624	1,947	1,765	2,806
Students in Need	3,385	50	641	2,794
Franklin Student Council	4,215	-	2,000	2,215
Garfield Student Council	1,160	-	1,160	-
Guthrie District Transportation	458	3,090	3,150	398
Hard of Hearing	368	1,948	1,042	1,274
Hoover Student Council	1,404	-	60	1,344
HOSA	3,400	12,699	10,648	5,451
Jefferson Elementary	866	1,333	809	1,390
Monroe Student Council	119	-	-	119
Roosevelt Student Council	1,364	1,248	675	1,937
State Capital Trips	7,803	-	1,937	5,866
Washington Student Council	398	1,809	1,809	398
<b>TOTAL OTHER</b>	<b>38,509</b>	<b>32,804</b>	<b>34,013</b>	<b>37,300</b>
<b>TOTAL</b>	<b>\$ 390,799</b>	<b>\$ 761,793</b>	<b>\$ 753,742</b>	<b>\$ 398,850</b>

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, 2018**

**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, 2018, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated November 19, 2018. 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*, except as described in the Schedule of Findings and Responses as items 2018-004 and 2018-005. 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.

The District's written responses to the legal compliance findings identified in our audit are described in the Schedule of Findings and Responses. Independent School District No. 77's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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  
November 19, 2018

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF FINDINGS AND RESPONSES –  
STUDENT ACTIVITY FUNDS  
JUNE 30, 2018**

**Finding: 2018-004                    MINNESOTA LEGAL COMPLIANCE – STUDENT DISBURSEMENT  
APPROVAL**

The *Manual for Activity Fund Accounting* states, “all check requests must be accompanied with appropriate supporting documentation in order for a check to be prepared.” One of 25 student activity check request forms tested did not include proper supporting documentation.

**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 implement a procedure requiring student representative signatures prior to the issuance of disbursements.

**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, 2018.

**Plan to Monitor Completion of CAP:**

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

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF FINDINGS AND RESPONSES –  
STUDENT ACTIVITY FUNDS  
JUNE 30, 2018**

**Finding: 2018-005                    MINNESOTA LEGAL COMPLIANCE – INACTIVE STUDENT ACTIVITY ACCOUNTS**

We noted 27 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, 2018.

**Plan to Monitor Completion of CAP:**

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

