

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2017**

INTRODUCTORY SECTION

BOARD OF EDUCATION AND ADMINISTRATION	1
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
-------------------------------------	----------

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS	5
---	----------

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	15
----------------------------------	-----------

STATEMENT OF ACTIVITIES	16
--------------------------------	-----------

BALANCE SHEET – GOVERNMENTAL FUNDS	17
---	-----------

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	18
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	19
---	-----------

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	20
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND	21
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – FOOD SERVICE FUND	22
--	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	23
---	-----------

STATEMENT OF NET POSITION – PROPRIETARY FUND	24
---	-----------

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUND	25
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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2017**

STATEMENT OF CASH FLOWS – PROPRIETARY FUND	26
STATEMENT OF FIDUCIARY NET POSITION	27
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	27
NOTES TO FINANCIAL STATEMENTS	28
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFIT PLAN	67
SCHEDULE OF EMPLOYER CONTRIBUTIONS	67
SCHEDULE OF CHANGES IN EMPLOYER NET OPEB LIABILITY AND RELATED RATIOS	68
SCHEDULE OF THE DISTRICT’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	69
SCHEDULE OF THE DISTRICT’S CONTRIBUTIONS	70
SUPPLEMENTARY INFORMATION	
SCHEDULE OF CHANGES IN FUND EQUITIES	71
SINGLE AUDIT AND OTHER REQUIRED REPORTS	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	72
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	73
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 <i>GOVERNMENT AUDITING STANDARDS</i>	74
INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	76
INDEPENDENT AUDITORS’ REPORT ON MINNESOTA LEGAL COMPLIANCE	78
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	79

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2017**

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	81
STUDENT ACTIVITY FUNDS	
INDEPENDENT AUDITORS' REPORT	82
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS	84
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS	88
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE MANUAL FOR ACTIVITY FUND ACCOUNTING	89
SCHEDULE OF FINDINGS AND RESPONSES – STUDENT ACTIVITY FUNDS	90

INTRODUCTORY SECTION

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2017**

BOARD OF EDUCATION

Ann Hendricks	Chairperson
Jodi Sapp	Vice Chairperson
Kristi Schuck	Director
Kinney Eberhart	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, 2017, 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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited Independent School District No. 77's 2016 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated November 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress for Other Post Employment Benefit Plan, Schedule of Changes in Employer's Net OPEB Liability and Related Ratios, the Schedule of Employer Contributions, 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.

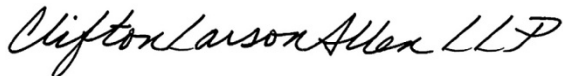
Other Information

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 December 4, 2017 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 the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 77's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
December 4, 2017

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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, 2017**

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, 2017. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-2017 fiscal year include the following:

- Construction has progressed on projects that were approved in the 2013 \$69.5 million dollar bond referendum. The construction of Prairie Winds Middle School was completed in time for school to start in early September and the remodel of East High School is underway.
- The General Fund Balance decreased from \$16,172,953 on June 30, 2016 to \$14,068,665 on June 30, 2017.
- Total K-12 Average Daily Membership increased 345 students, up 4.2% from 2015-16.
- The Community Service Fund Balance increased from \$1,604,471 on June 30, 2016 to \$1,674,471 on June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position from Governmental activities was negative \$43,316,572 on June 30, 2017 (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.

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

	Governmental Activities as of June 30,		Percentage Change
	2017	2016	
Current and Other Assets	\$ 80,167,897	\$ 95,873,726	(16.38)%
Capital Assets	114,772,493	103,295,022	11.11
Total Assets	<u>194,940,390</u>	<u>199,168,748</u>	(2.12)
Deferred Outflows of Resources	128,826,369	11,462,399	1023.90
Current Liabilities	12,710,504	76,095,661	(83.30)
Long-Term Liabilities	329,672,168	124,743,806	164.28
Total Liabilities	<u>342,382,672</u>	<u>200,839,467</u>	70.48
Deferred Inflows of Resources	<u>24,700,659</u>	<u>28,155,950</u>	(12.27)
Net Position:			
Net Investment in Capital Assets	30,837,819	30,236,385	1.99
Restricted	10,455,827	12,351,027	(15.34)
Unrestricted	(84,610,218)	(60,951,682)	38.82
Total Net Position	<u>\$ (43,316,572)</u>	<u>\$ (18,364,270)</u>	135.87

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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
	2017	2016	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 6,067,160	\$ 5,829,778	4.07 %
Operating Grants and Contributions	31,219,876	26,669,100	17.06
Capital Grants and Contributions	1,231,054	1,118,684	10.04
<u>General Revenues</u>			
Property Taxes	22,336,098	20,475,941	9.08
Unrestricted State Aid	55,771,740	52,227,686	6.79
Investment Earnings	254,373	264,263	(3.74)
Other	96,366	136,332	(29.32)
Total Revenues	<u>116,976,667</u>	<u>106,721,784</u>	9.61
Expenses			
Administration	4,292,064	3,116,085	37.74
District Support Services	2,567,674	1,731,101	48.33
Regular Instruction	66,026,691	45,701,043	44.48
Vocational Education Instruction	1,770,777	1,072,323	65.13
Special Education Instruction	25,461,246	17,835,618	42.76
Instructional Support Services	7,741,605	7,144,062	8.36
Pupil Support Services	7,908,517	6,105,919	29.52
Sites and Buildings	9,906,317	8,073,354	22.70
Fiscal and Other Fixed Cost Programs	213,205	228,524	(6.70)
Food Service	4,723,550	4,103,864	15.10
Community Service	7,130,139	5,852,574	21.83
Interest and Fiscal Charges on Long-Term Liabilities	4,187,184	4,452,668	(5.96)
Total Expenses	<u>141,928,969</u>	<u>105,417,135</u>	34.64
Change in Net Position	(24,952,302)	1,304,649	
Beginning Net Position	(18,364,270)	(19,668,919)	
Ending Net Position	<u>\$ (43,316,572)</u>	<u>\$ (18,364,270)</u>	

Changes in Net Position

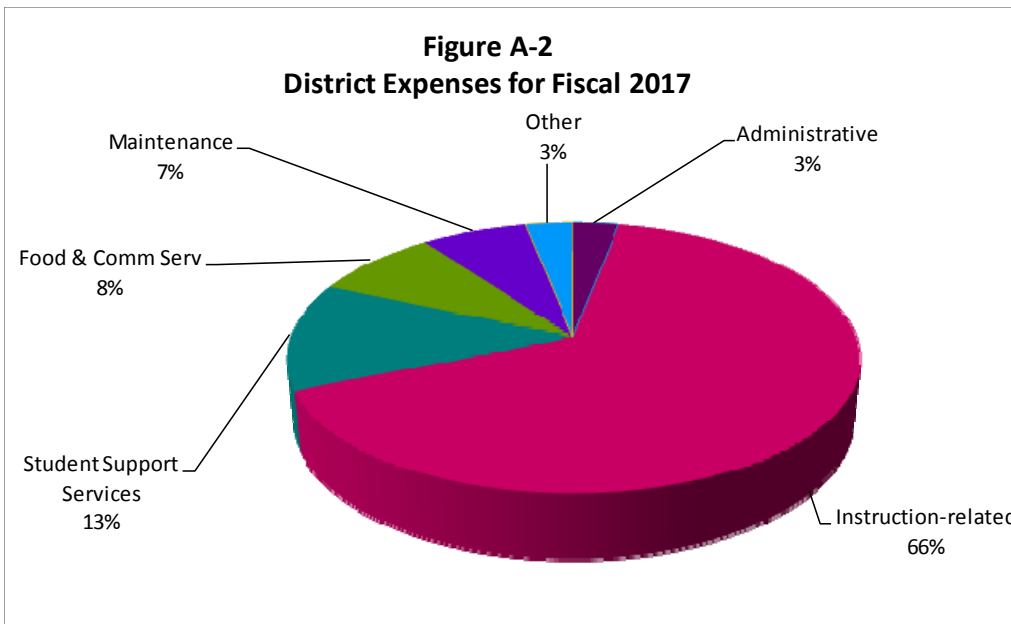
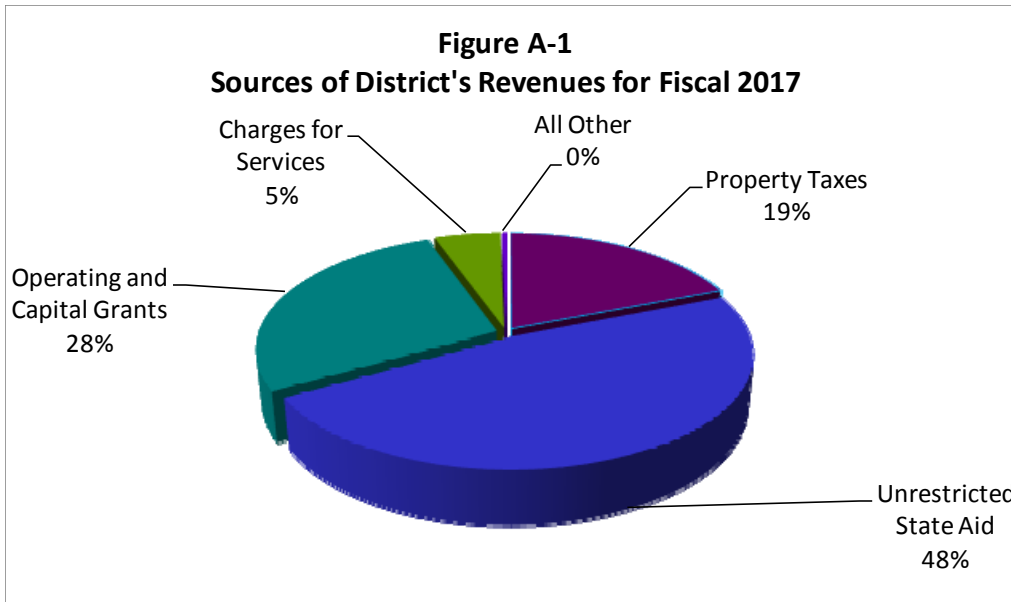
The District's total revenues were \$116,976,667 for the year ended June 30, 2017. Unrestricted state aid accounted for 48%, property taxes accounted for 19%, operating and capital grants accounted for 28%, and charges for services accounted for 5%. (See Figure A-1).

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$141,928,969. Direct instruction related costs accounted for 66%, student support services accounted for 13%, buildings and equipment costs accounted for 7%, 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, 2017**

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
	2017	2016		2017	2016	
Administration	\$ 4,292,064	\$ 3,116,085	37.74%	\$ 3,917,367	\$ 3,115,903	25.72%
District Support Services	2,567,674	1,731,101	48.33%	2,381,579	1,652,524	44.12%
Regular Instruction	66,026,691	45,701,043	44.48%	54,991,461	36,521,558	50.57%
Vocational Education Instruction	1,770,777	1,072,323	65.13%	1,697,503	998,166	70.06%
Special Education Instruction	25,461,246	17,835,618	42.76%	11,805,673	5,566,529	112.08%
Instructional Support Services	7,741,605	7,144,062	8.36%	5,896,669	5,608,976	5.13%
Pupil Support Services	7,908,517	6,105,919	29.52%	7,652,812	5,858,499	30.63%
Sites and Buildings	9,906,317	8,073,354	22.70%	9,219,919	7,459,398	23.60%
Fiscal and Other Fixed Cost Programs	213,205	228,524	-6.70%	213,205	228,524	-6.70%
Food Service	4,723,550	4,103,864	15.10%	223,727	(104,729)	-313.62%
Community Service	7,130,139	5,852,574	21.83%	1,223,780	628,242	94.79%
Interest and Fiscal Charges on Long-Term Liabilities	4,187,184	4,452,668	-5.96%	4,187,184	4,265,983	-1.85%
	<u>\$ 141,928,969</u>	<u>\$ 105,417,135</u>	34.64%	<u>\$ 103,410,879</u>	<u>\$ 71,799,573</u>	44.03%

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 \$16,822,120 for the year ended June 30, 2017. This is primarily a result of the expenditures recorded in the Capital Projects Fund for the construction of a new middle school and betterment of various school sites and facilities approved in the 2013 bond referendum.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND

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

Approximately 97% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local Board of Education having no meaningful authority to determine the level of resources. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

ENROLLMENT

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

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

Grade	2013	2014	2015	2016	2017
EC	115	111	118	135	143
HK	90	100	98	96	104
Kdgt.	593	590	574	582	556
1-3	1,842	1,892	2,003	2,068	2,098
4-6	1,711	1,707	1,742	1,859	2,002
7-12	3,223	3,245	3,324	3,422	3,604
Total E-12 ADM	7,574	7,645	7,859	8,162	8,507
ADM Change	N/A	71	214	303	345
Percent Change	N/A	0.94%	2.80%	3.86%	4.23%

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, 2017**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenues.

**Table A-4
General Fund Revenues**

	Year Ended		Change	
	June 30, 2017	June 30, 2016	Increase (Decrease)	Percent Change
Local Sources:				
Property Taxes	\$ 12,102,045	\$ 11,596,909	\$ 505,136	4.4 %
Earnings on Investments	107,166	77,634	29,532	38.0
Other	2,234,028	1,901,932	332,096	17.5
State Sources	75,813,905	71,429,929	4,383,976	6.1
Federal Sources	3,251,396	2,969,890	281,506	9.5
Total General Fund Revenue	<u>\$ 93,508,540</u>	<u>\$ 87,976,294</u>	<u>\$ 5,532,246</u>	6.3

Total General Fund Revenue increased by \$5,532,246 or 6.3% 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-4
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2017	June 30, 2016	Increase (Decrease)	Percent Change
Salaries	\$ 56,678,666	\$ 51,705,524	\$ 4,973,142	9.6 %
Employee Benefits	20,464,655	20,043,035	421,620	2.1
Purchased Services	9,640,467	8,665,904	974,563	11.2
Supplies and Materials	3,516,237	3,129,860	386,377	12.3
Capital Expenditures	3,789,128	4,295,790	(506,662)	(11.8)
Other Expenditures	1,523,675	510,237	1,013,438	198.6
Total Expenditures	<u>\$ 95,612,828</u>	<u>\$ 88,350,350</u>	<u>\$ 7,262,478</u>	8.2

Total General Fund Expenditures increased \$7,262,478 or about 8.2% from the previous year.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

The total fund balance at June 30, 2017, is \$14,068,665. Of this amount \$3,392,091 is restricted for specific purposes by state requirements; \$690,000 is assigned for severance.

In our analysis of significant variances between original and final budget amounts and between final budget amounts and actual results in the General Fund, there are no variances in revenues or expenditures that will have a significant effect on future services or liquidity. The positive budgetary fluctuation in state aid revenues is due to the District's conservative approach in budgeting state aids in the current economic environment. The Minnesota legislature passed legislation for funding all day every day kindergarten beginning with the 2014-15 school year. The District has provided the service since 2007 with fractional funding by the State.

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, 2016 is \$1,219,802, an increase of \$6,949 from June 30, 2016.

Food Service Fund Revenues for the year ended June 30, 2017 totaled \$4,504,354. This was an increase of \$290,687 or 6.9% from the year ended June 30, 2016. Additional meals served contributed to the increased revenue.

Food Service Fund Expenditures for the year ended June 30, 2017 totaled \$4,497,405. This was an increase of \$429,027 or 10.5% from the year ended June 30, 2016.

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, 2017 is \$1,674,038, an increase of \$69,567 from June 30, 2016.

Community Service Fund Revenues for the year ended June 30, 2017 totaled \$6,633,324. This was an increase of \$551,036 or 9.1% from the year ended June 30, 2016. This increase is largely due to the expansion of the school age care program and the early learning scholarship program.

Community Service Fund Expenditures for the year ended June 30, 2017 totaled \$6,563,757. This was an increase of \$668,694 or 11.3% from the year ended June 30, 2016. This increase is related to additional expenditures in the school age care program and the early learning scholarship program.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2017, the District had invested almost \$115 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 \$3,885,466.

**Table A-7
Capital Assets**

	2017	2016	Percentage Change
Land	\$ 6,710,561	\$ 4,120,830	62.8 %
Construction in Progress	10,483,845	40,808,243	(74.3)
Land Improvements	10,919,027	6,078,007	79.6
Buildings and Improvements	126,783,090	91,566,767	38.5
Equipment	10,685,987	7,645,726	39.8
Less: Accumulated Depreciation	(50,810,017)	(46,924,551)	8.3
Total District Capital Assets	\$ 114,772,493	\$ 103,295,022	11.1

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 \$16,647,672 as of June 30, 2017 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 2016 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, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had \$119,999,520 in general obligation bonds, bond premium/discount and lease purchase agreements.

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

	2017	2016	Percentage Change
General Obligation Bonds	\$ 114,340,000	\$ 119,505,000	(4.3)%
Net Bond Premium and Discount	4,002,224	4,262,968	(6.1)
Capital Leases Payable	1,657,296	2,220,378	(25.4)
Severance and Wellness Benefits Payable	4,376,872	4,759,340	(8.0)
Compensated Absences Payable	651,875	576,884	13.0
Total Long-Term Liabilities	<u>\$ 125,028,267</u>	<u>\$ 131,324,570</u>	(4.8)
Long-Term Liabilities:			
Due Within One Year	\$ 11,661,641	\$ 6,580,764	
Due in More Than One Year	113,366,626	124,743,806	
Total	<u>\$ 125,028,267</u>	<u>\$ 131,324,570</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF NET POSITION
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	Governmental Activities	
	2017	2016
ASSETS		
Cash and Investments	\$ 33,048,265	\$ 49,082,597
Cash with Fiscal Agent	20,576,310	21,020,131
Receivables:		
Property Taxes	11,461,948	11,503,783
Other Governments	10,819,112	8,716,206
Other	215,824	402,534
Prepaid Items	43,001	40,286
Inventories	47,126	87,694
Prefunded Other Post Employment Benefit Obligations	3,956,311	5,020,495
Capital Assets:		
Land and Construction in Progress	17,194,406	44,929,073
Other Capital Assets, Net of Depreciation	97,578,087	58,365,949
Total Assets	194,940,390	199,168,748
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pension Payments	128,826,369	11,462,399
LIABILITIES		
Salaries Payable	4,957,119	4,685,935
Accounts and Contracts Payable	5,800,473	4,534,521
Accrued Interest	1,767,746	1,813,279
Due to Other Governmental Units	-	2,602
Unearned Revenue	185,166	139,881
Long-Term Liabilities:		
Net Pension Liability	204,643,901	58,338,679
Other Long-Term Liabilities Due Within One Year	11,661,641	6,580,764
Other Long-Term Liabilities Due in More Than One Year	113,366,626	124,743,806
Total Liabilities	342,382,672	200,839,467
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	21,875,717	21,282,307
Deferred Inflows - Pensions	2,824,942	6,873,643
Total Deferred Inflows of Resources	24,700,659	28,155,950
NET POSITION		
Net Investment in Capital Assets	30,837,819	30,236,385
Restricted for:		
Operating Capital Purposes	1,126,782	2,368,574
State-Mandated Reserves	2,265,309	2,035,981
Food Service	1,219,802	1,212,853
Community Service	1,684,730	1,615,210
Capital Projects	202,893	97,914
Other Post Employment Benefit Obligations	3,956,311	5,020,495
Unrestricted	(84,610,218)	(60,951,682)
Total Net Position	\$ (43,316,572)	\$ (18,364,270)

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

Functions	2017				2016	2016
	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position	Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
Governmental Activities						
Administration	\$ 4,292,064	\$ -	\$ 373,821	\$ 876	\$ (3,917,367)	\$ (3,115,903)
District Support Services	2,567,674	-	18,769	167,326	(2,381,579)	(1,652,524)
Regular Instruction	66,026,691	658,366	10,093,638	283,226	(54,991,461)	(36,521,558)
Vocational Education Instruction	1,770,777	-	73,274	-	(1,697,503)	(998,166)
Special Education Instruction	25,461,246	948	13,653,960	665	(11,805,673)	(5,566,529)
Instructional Support Services	7,741,605	49,121	1,330,481	465,334	(5,896,669)	(5,608,976)
Pupil Support Services	7,908,517	-	253,279	2,426	(7,652,812)	(5,858,499)
Sites and Buildings	9,906,317	46,277	328,920	311,201	(9,219,919)	(7,459,398)
Fiscal and Other Fixed Cost Programs	213,205	-	-	-	(213,205)	(228,524)
Food Service	4,723,550	1,733,213	2,766,610	-	(223,727)	104,729
Community Service	7,130,139	3,579,235	2,327,124	-	(1,223,780)	(628,242)
Interest and Fiscal Charges on Long-Term Liabilities	4,187,184	-	-	-	(4,187,184)	(4,265,983)
Total School District	\$ 141,928,969	\$ 6,067,160	\$ 31,219,876	\$ 1,231,054	(103,410,879)	(71,799,573)
General Revenues						
Property Taxes Levied for:						
General Purposes					12,107,301	11,532,442
Community Service					779,414	839,492
Debt Service					9,449,383	8,104,007
State Aid Not Restricted to Specific Purposes					55,771,740	52,227,686
Earnings on Investments					254,373	264,263
Miscellaneous					96,366	136,332
Total General Revenues					78,458,577	73,104,222
Change in Net Position					(24,952,302)	1,304,649
Net Position - Beginning					(18,364,270)	(19,668,919)
Net Position - Ending					\$ (43,316,572)	\$ (18,364,270)

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2017**

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)

	Major Funds						Total Governmental	
	General	Food Service	Community Service	Capital Projects	Debt Service	OPEB Debt Service	Funds	
							2017	2016
ASSETS								
Cash and Investments	\$ 15,778,456	\$ 1,212,924	\$ 1,967,124	\$ 7,903,746	\$ 5,058,164	\$ 788,443	\$ 32,708,857	\$ 48,743,760
Cash with Fiscal Agent	-	-	-	-	15,652,925	4,923,385	20,576,310	21,020,131
Receivables:								
Current Property Taxes	6,310,887	-	385,536	-	4,005,139	486,303	11,187,865	11,223,347
Delinquent Property Taxes	154,262	-	10,692	-	92,938	16,191	274,083	280,436
Accounts and Interest Receivable	23,139	23,933	59,798	-	93,373	15,581	215,824	402,534
Due from Minnesota Department of Education	8,814,099	339	181,884	-	4,734	540	9,001,596	5,509,150
Due from Federal through Minnesota Department of Education	1,612,485	90,260	114,771	-	-	-	1,817,516	3,207,056
Inventory	-	47,126	-	-	-	-	47,126	87,694
Prepays	43,001	-	-	-	-	-	43,001	40,286
Total Assets	<u>\$ 32,736,329</u>	<u>\$ 1,374,582</u>	<u>\$ 2,719,805</u>	<u>\$ 7,903,746</u>	<u>\$ 24,907,273</u>	<u>\$ 6,230,443</u>	<u>\$ 75,872,178</u>	<u>\$ 90,514,394</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE								
Liabilities:								
Salaries and Compensated Absences Payable	\$ 1,542,995	\$ 18,205	201,568	\$ 3,552	\$ -	\$ -	\$ 1,766,320	\$ 1,632,870
Payroll Deductions and Employer Contributions Payable	3,190,799	-	-	-	-	-	3,190,799	3,053,065
Accounts and Contracts Payable	1,749,453	50,230	47,381	3,633,429	-	-	5,480,493	4,219,699
Due to Other Governmental Units	-	-	-	-	-	-	-	2,602
Unearned Revenue	98,821	86,345	-	-	-	-	185,166	139,881
Total Liabilities	<u>6,582,068</u>	<u>154,780</u>	<u>248,949</u>	<u>3,636,981</u>	<u>-</u>	<u>-</u>	<u>10,622,778</u>	<u>9,048,117</u>
Deferred Inflows of Resources:								
Unavailable Revenue - Property Taxes Levied for Subsequent Year	11,931,335	-	786,126	-	8,166,663	991,593	21,875,717	21,282,307
Unavailable Revenue - Delinquent Property Taxes	154,261	-	10,692	-	92,938	16,191	274,082	262,249
Total Deferred Inflows of Resources	<u>12,085,596</u>	<u>-</u>	<u>796,818</u>	<u>-</u>	<u>8,259,601</u>	<u>1,007,784</u>	<u>22,149,799</u>	<u>21,544,556</u>
Fund Balance:								
Nonspendable:								
Inventory	-	47,126	-	-	-	-	47,126	87,694
Prepays	43,001	-	-	-	-	-	43,001	40,286
Restricted for:								
Staff Development	401,083	-	-	-	-	-	401,083	399,046
Deferred Maintenance	-	-	-	-	-	-	-	54,725
Health and Safety	97,895	-	-	-	-	-	97,895	-
Operating Capital	1,126,782	-	-	-	-	-	1,126,782	2,368,574
Bond Refundings	-	-	-	-	15,746,298	4,938,966	20,685,264	21,129,455
Learning and Development	811,082	-	-	-	-	-	811,082	1,013,504
Community Education	-	-	342,913	-	-	-	342,913	709,376
Early Childhood and Family Education	-	-	730,783	-	-	-	730,783	611,865
Teacher Development and Evaluation	78,280	-	-	-	-	-	78,280	114,126
Basic Skills Programs	-	-	-	-	-	-	-	454,580
School Readiness	-	-	489,848	-	-	-	489,848	187,352
Adult Basic Education	-	-	110,494	-	-	-	110,494	67,196
Medical Assistance	876,969	-	-	-	-	-	876,969	-
Restricted for Other Purposes:								
Food Service	-	1,172,676	-	-	-	-	1,172,676	1,125,159
Community Service	-	-	-	-	-	-	-	1
Capital Projects	-	-	-	4,266,765	-	-	4,266,765	18,981,272
Debt Service	-	-	-	-	901,374	-	901,374	496,785
OPEB Debt Service	-	-	-	-	-	283,693	283,693	323,932
Assigned for:								
Separation/Retirement Benefits	690,000	-	-	-	-	-	690,000	690,000
Unassigned	9,943,573	-	-	-	-	-	9,943,573	11,066,793
Total Fund Balance	<u>14,068,665</u>	<u>1,219,802</u>	<u>1,674,038</u>	<u>4,266,765</u>	<u>16,647,672</u>	<u>5,222,659</u>	<u>43,099,601</u>	<u>59,921,721</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 32,736,329</u>	<u>\$ 1,374,582</u>	<u>\$ 2,719,805</u>	<u>\$ 7,903,746</u>	<u>\$ 24,907,273</u>	<u>\$ 6,230,443</u>	<u>\$ 75,872,178</u>	<u>\$ 90,514,394</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
Total Fund Balance for Governmental Funds	\$ 43,099,601	\$ 59,921,721
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	4,120,830
Construction in Progress	10,483,845	40,808,243
Land Improvements, Net of Accumulated Depreciation	8,251,469	3,811,679
Buildings and Improvements, Net of Accumulated Depreciation	83,549,256	51,174,624
Equipment, Net of Accumulated Depreciation	5,777,362	3,379,646
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.	274,082	262,249
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.	(1,767,746)	(1,813,279)
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	5,020,495
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	(204,643,901)	(58,338,679)
Deferred Inflows of Resources - Pensions	(2,824,942)	(6,873,643)
Deferred Outflows of Resources - Pensions	128,826,369	11,462,399
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	(114,340,000)	(119,505,000)
Unamortized Premiums	(4,056,839)	(4,325,879)
Unamortized Discounts	54,615	62,911
Capital Leases Payable	(1,657,296)	(2,220,378)
Severance and Health Benefits Payable	(4,376,872)	(4,759,340)
Compensated Absences Payable	(651,875)	(576,884)
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:	19,428	24,015
Total Net Position of Governmental Activities	<u>\$ (43,316,572)</u>	<u>\$ (18,364,270)</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	Major Funds						Total Governmental Funds	
	General	Food Service	Community Service	Capital Projects	Debt Service	OPEB Debt Service	2017	2016
REVENUES								
Local Sources:								
Property Taxes	\$ 12,102,045	\$ -	\$ 779,461	\$ -	\$ 8,471,773	\$ 970,986	\$ 22,324,265	\$ 20,578,717
Earnings and Investments	107,166	9,794	12,778	104,979	(333)	19,900	254,284	450,909
Other	2,234,028	1,736,891	3,977,521	-	-	-	7,948,440	6,997,999
State Sources	75,813,905	214,703	1,656,890	-	47,254	5,387	77,738,139	73,165,760
Federal Sources	3,251,396	2,542,966	206,674	-	-	-	6,001,036	5,631,023
Total Revenues	93,508,540	4,504,354	6,633,324	104,979	8,518,694	996,273	114,266,164	106,824,408
EXPENDITURES								
Current:								
Administration	3,216,599	-	-	-	-	-	3,216,599	3,034,928
District Support Services	2,272,377	-	-	-	-	-	2,272,377	1,711,050
Elementary and Secondary Regular Instruction	45,054,539	-	-	-	-	-	45,054,539	42,655,044
Vocational Education Instruction	1,328,788	-	-	-	-	-	1,328,788	1,070,852
Special Education Instruction	19,344,830	-	-	-	-	-	19,344,830	17,713,821
Instructional Support Services	5,009,747	-	-	-	-	-	5,009,747	4,660,426
Pupil Support Services	6,804,013	-	-	-	-	-	6,804,013	5,949,454
Sites and Buildings	7,952,867	-	-	-	-	-	7,952,867	7,030,461
Fiscal and Other Fixed Cost Programs	213,205	-	-	-	-	-	213,205	228,524
Food Service	-	4,440,845	-	-	-	-	4,440,845	3,956,125
Community Service	-	-	6,487,651	-	-	-	6,487,651	5,867,968
Capital Outlay	3,789,128	56,560	76,106	14,819,486	-	-	18,741,280	39,920,408
Debt Service:								
Principal	563,082	-	-	-	4,455,000	710,000	5,728,082	6,630,000
Interest and Fiscal Charges	63,653	-	-	-	4,052,265	377,543	4,493,461	4,719,257
Total Expenditures	95,612,828	4,497,405	6,563,757	14,819,486	8,507,265	1,087,543	131,088,284	145,148,318
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,104,288)	6,949	69,567	(14,714,507)	11,429	(91,270)	(16,822,120)	(38,323,910)
OTHER FINANCING SOURCES (USES)								
Judgments for the School District	-	-	-	-	-	-	-	113
Proceeds from Sale of Bonds	-	-	-	-	-	-	-	20,880,000
Bond Premium	-	-	-	-	-	-	-	401,180
Proceeds from Capital Lease	-	-	-	-	-	-	-	1,242,851
Payment to Refunded Bond Escrow Agent	-	-	-	-	-	-	-	(3,600,000)
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	18,924,144
Net Change in Fund Balance	(2,104,288)	6,949	69,567	(14,714,507)	11,429	(91,270)	(16,822,120)	(19,399,766)
FUND BALANCES								
Beginning of Year	16,172,953	1,212,853	1,604,471	18,981,272	16,636,243	5,313,929	59,921,721	79,321,487
End 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

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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
Net Change in Fund Balance - Total Governmental Funds	\$ (16,822,120)	\$ (19,399,766)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period is:		
Capital Outlays	15,362,937	36,148,087
Depreciation Expense	(3,885,466)	(2,864,872)
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	-	(1,242,851)
Change in Accrued Interest Expense - Capital Lease	1,693	1,788
Principal Payments - Capital Leases	563,082	208,945
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.		
	11,833	(102,776)
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.		
	(24,892,551)	52,840
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).		
	307,477	137,545
In the statement of activities, OPEB expenses are measured by the change in the net OPEB asset or liability. In the governmental funds, however, expenditures for this obligation are measured by the amount of financial resources paid to the District's irrevocable OPEB trust.		
	(1,064,184)	(823,743)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
General Obligation Bond Proceeds	-	(20,880,000)
Bond Premium	-	(401,180)
Payment to Refunded Bond Escrow Agent	-	3,600,000
Repayment of Bond Principal	5,165,000	6,630,000
Change in Accrued Interest - General Obligation Bonds	43,840	28,496
Amortization of Bond Premium	269,040	244,601
Amortization of Bond Discount	(8,296)	(8,296)
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.		
	(4,587)	(24,169)
Total	<u>\$ (24,952,302)</u>	<u>\$ 1,304,649</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
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 11,494,350	\$ 11,934,019	\$ 12,102,045	\$ 168,026
Earnings and Investments	50,000	50,000	107,166	57,166
Other	1,632,100	2,082,645	2,234,028	151,383
State Sources	72,792,990	74,673,929	75,813,905	1,139,976
Federal Sources	2,855,830	3,315,116	3,251,396	(63,720)
Total Revenues	<u>88,825,270</u>	<u>92,055,709</u>	<u>93,508,540</u>	<u>1,452,831</u>
EXPENDITURES				
Current:				
Administration	2,329,491	3,122,941	3,216,599	93,658
District Support Services	1,393,660	1,786,687	2,272,377	485,690
Elementary and Secondary Regular Instruction	33,831,267	45,929,308	45,054,539	(874,769)
Vocational Education Instruction	754,926	1,104,048	1,328,788	224,740
Special Education Instruction	14,883,882	18,454,824	19,344,830	890,006
Instructional Support Services	4,702,058	4,949,802	5,009,747	59,945
Pupil Support Services	5,674,595	6,113,938	6,804,013	690,075
Sites and Buildings	6,270,745	8,379,679	7,952,867	(426,812)
Fiscal and Other Fixed Cost Programs	16,645,220	1,115,000	213,205	(901,795)
Capital Outlay	3,628,225	3,625,043	3,789,128	164,085
Debt Service:				
Principal	-	-	563,082	563,082
Interest and Fiscal Charges	-	-	63,653	63,653
Total Expenditures	<u>90,114,069</u>	<u>94,581,270</u>	<u>95,612,828</u>	<u>1,031,558</u>
Net Change in Fund Balance	<u>\$ (1,288,799)</u>	<u>\$ (2,525,561)</u>	(2,104,288)	<u>\$ 421,273</u>
FUND BALANCE				
Beginning of Year			<u>16,172,953</u>	
End of Year			<u>\$ 14,068,665</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, 2017**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 1,000	\$ 1,000	\$ 9,794	\$ 8,794
Other - Primarily Meal Sales	1,586,000	1,586,000	1,736,891	150,891
State Sources	190,000	190,000	214,703	24,703
Federal Sources	2,216,000	2,216,000	2,542,966	326,966
Total Revenues	<u>3,993,000</u>	<u>3,993,000</u>	4,504,354	<u>511,354</u>
EXPENDITURES				
Current:				
Food Service	4,014,085	4,014,085	4,440,845	426,760
Capital Outlay	100,000	100,000	56,560	(43,440)
Total Expenditures	<u>4,114,085</u>	<u>4,114,085</u>	<u>4,497,405</u>	<u>383,320</u>
Net Change in Fund Balance	<u>\$ (121,085)</u>	<u>\$ (121,085)</u>	6,949	<u>\$ 128,034</u>
FUND BALANCE				
Beginning of Year			<u>1,212,853</u>	
End of Year			<u>\$ 1,219,802</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, 2017**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 774,477	\$ 774,477	\$ 779,461	\$ 4,984
Earnings and Investments	500	500	12,778	12,278
Other - Primarily Tuition and Fees	3,739,510	3,847,036	3,977,521	130,485
State Sources	1,608,257	1,586,452	1,656,890	70,438
Federal Sources	201,695	195,110	206,674	11,564
Total Revenues	<u>6,324,439</u>	<u>6,403,575</u>	<u>6,633,324</u>	<u>229,749</u>
EXPENDITURES				
Current:				
Community Service	5,799,662	6,332,101	6,487,651	155,550
Capital Outlay	119,600	113,400	76,106	(37,294)
Total Expenditures	<u>5,919,262</u>	<u>6,445,501</u>	<u>6,563,757</u>	<u>118,256</u>
Net Change in Fund Balance	<u>\$ 405,177</u>	<u>\$ (41,926)</u>	69,567	<u>\$ 111,493</u>
FUND BALANCE				
Beginning of Year			<u>1,604,471</u>	
End of Year			<u>\$ 1,674,038</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	Governmental Activities - Internal Service Funds	
	2017	2016
ASSETS		
Cash and Investments	\$ 339,408	\$ 338,837
LIABILITIES		
Claims Payable for Dental Benefits	319,980	314,822
NET POSITION		
Unrestricted	\$ 19,428	\$ 24,015

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, 2017**

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	Governmental Activities - Internal Service Funds	
	2017	2016
OPERATING REVENUES		
Charges for Services:		
Dental Insurance Premiums	\$ 596,512	\$ 561,454
OPERATING EXPENSES		
Dental Insurance Claim Payments	549,871	531,868
General Administration Fees	51,317	53,794
Total Operating Expenses	601,188	585,662
Operating Income (Loss)	(4,676)	(24,208)
NONOPERATING INCOME		
Earnings on Investments	89	39
Change in Net Position	(4,587)	(24,169)
Net Position - Beginning	24,015	48,184
Net Position - Ending	\$ 19,428	\$ 24,015

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEARS ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	Governmental Activities - Internal Service Funds	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 596,512	\$ 561,454
Payments for Administrative Costs	(51,317)	(53,794)
Payments for Retirement Benefits	(544,713)	(513,721)
Net Cash Provided (Used) by Operating Activities	482	(6,061)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	89	39
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	571	(6,022)
 Cash and Cash Equivalents - Beginning	338,837	344,859
 CASH AND CASH EQUIVALENTS - ENDING	\$ 339,408	\$ 338,837
 Displayed on the Statement of Net Position as:		
Cash and Cash Equivalents	\$ 339,408	\$ 338,837
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (4,676)	\$ (24,208)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Increase (Decrease) in Claims Payable	5,158	18,147
Net Cash Provided (Used) by Operating Activities	\$ 482	\$ (6,061)

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

	Private-Purpose Trust	OPEB Trust	Agency Funds
ASSETS			
Cash and Investments	\$ 75,736	\$ 12,939,033	\$ 844,910
Accounts Receivable	-	15	13,689
Total Assets	<u>75,736</u>	<u>12,939,048</u>	<u>\$ 858,599</u>
LIABILITIES			
Salaries and Payroll Deductions Payable	-	-	\$ 2,306
Accounts Payable and Due to Other Governments	20	-	856,293
Total Liabilities	<u>20</u>	<u>-</u>	<u>\$ 858,599</u>
NET POSITION			
Restricted for Payment of OPEB Benefits	-	12,939,048	
Restricted for Scholarships and Other Purposes	75,716	-	
Total Net Position	<u>\$ 75,716</u>	<u>\$ 12,939,048</u>	

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017**

	Private-Purpose Trust	OPEB Trust
ADDITIONS		
Gifts and Donations	\$ 16,335	\$ -
Employer Contributions	-	320,614
Earnings on Investments	-	770,920
Total Additions	<u>16,335</u>	<u>1,091,534</u>
DEDUCTIONS		
Scholarships Awarded	35,952	-
Retirement Benefits	-	1,184,802
Administrative Costs	-	59,480
Total Deductions	<u>35,952</u>	<u>1,244,282</u>
Change in Net Position	(19,617)	(152,748)
Net Position - Beginning of Year	95,333	13,091,796
Net Position - End of Year	<u>\$ 75,716</u>	<u>\$ 12,939,048</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, 2017**

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.

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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, 2017**

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.

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Major Governmental Funds (Continued)

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 Post Employment 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.

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 Post Employment 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Trustee

At June 30, 2017, cash and investments held by trustee 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. Cash and investments held by trustee also consists of cash and cash equivalents and United States Treasury securities held by an escrow agent for the purpose of refunding the General Obligation Taxable OPEB Bonds, Series 2009A (See Note 4). These assets are sufficient to meet the debt service on the General Obligation Crossover Refunding Bonds, Series 2016B through the February 1, 2018 call date on the General Obligation Taxable OPEB Bonds of 2009A.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 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. Prefunded Other Post Employment Benefit Obligations

This represents the cumulative contributions for OPEB less the cumulative annual OPEB expense. The significant debit balance is due to current funding of the District's OPEB Trust Fund, while the full OPEB (asset) liability is being amortized (phased in) over a 30-year period, beginning in fiscal year 2009.

K. Property Taxes

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

Taxes are generally due on May 15 and October 15 and counties generally remit taxes to 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes (Continued)

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, 2017, 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.

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a 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.

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.

M. 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 one item that qualifies for reporting as this element – pension related deferred outflows of resources. The pension related deferred outflows of resources will be recognized as expenditures in subsequent years.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. 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.

O. 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.

P. Accrued Employee Benefits

Vacation Pay and Sick Leave

Employees earn annual vacation pay at rates dependent upon each employee group labor contract. At June 30th, 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Accrued Employee Benefits (Continued)

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 2017 were \$608,538. A liability for severance and wellness benefits payable totaling \$4,376,872 is recorded in the Statement of Net Position.

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, 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, 2017**

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, 2017 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

B. Investments

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

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

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At June 30, 2017, the District had the following investments:

Investments Measured at Fair Value	Fair Value
U.S. Treasuries	\$ 8,013,055
Federal Home Loan Bank	2,944,568
Federal National Mortgage Association	9,613,654
Mutual Funds	12,903,631
First Amer Govt Oblig Fund CI Z	35,402
Total Investments at Fair Value	\$ 33,510,310
Investments Measured at Amortized Cost	
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 22,096,501
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	3,520,259
Total Investments at Amortized Cost	\$ 25,616,760

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 are as follows:

	Credit Risk
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

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk (Continued)

As of June 30, 2017, 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	\$ 8,013,055	\$ 5,050,111	\$ 2,962,944	\$ -
Federal Home Loan Bank	2,944,568	-	2,944,568	-
Federal National Mortgage Association	9,613,654	-	9,613,654	-
Mutual Funds	12,903,631	12,903,631	-	-
MSDMAX	22,096,501	22,096,501	-	-
MSDLAF+	3,520,259	3,520,259	-	-
First Amer Govt Oblig Fund CI Z	35,402	35,402	-	-
	<u>\$ 59,127,070</u>	<u>\$ 43,605,904</u>	<u>\$ 15,521,166</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, 2017, 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	13.55%
Federal National Mortgage Association	16.26%
Mutual Fund - Baird Core	5.09%
Mutual Fund - Vanguard Intm	5.08%
MSDMAX	37.37%
MSDLAF+	5.95%

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

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

Deposits	\$	8,355,994
Cash on Hand		1,190
Minnesota School District Liquid Asset Fund Max Series (MSDMAx)		22,096,501
Minnesota School District Liquid Asset Plus (MSDLAF+)		3,520,259
U.S. Treasuries		8,013,055
Federal Home Loan Bank		2,944,568
Federal National Mortgage Association		9,613,654
Mutual Funds		12,903,631
First Amer Govt Oblig Fund CI Z		35,402
	<u>\$</u>	<u>67,484,254</u>
Cash and Investments - Statement of Net Position	\$	33,048,265
Cash and Investments Held by Trustee - Statement of Net Position		20,576,310
Cash and Investments - Statement of Fiduciary Net Position		13,859,679
Total Cash and Investments	<u>\$</u>	<u>67,484,254</u>

D. Fair Value Measurements

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

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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	\$ -	\$ 8,013,055	\$ -	\$ 8,013,055
Federal Home Loan Bank	-	2,944,568	-	2,944,568
Federal National Mortgage Association	-	9,613,654	-	9,613,654
Mutual Funds	12,903,631	-	-	12,903,631
First Amer Govt Oblig Cl Z	35,402	-	-	35,402
	<u>\$ 12,939,033</u>	<u>\$ 20,571,277</u>	<u>\$ -</u>	<u>\$ 33,510,310</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 4,120,830	\$ 2,589,731	\$ -	\$ 6,710,561
Construction in Progress	40,808,243	15,174,000	(45,498,398)	10,483,845
Total Capital Assets, Not Being Depreciated	<u>44,929,073</u>	<u>17,763,731</u>	<u>(45,498,398)</u>	<u>17,194,406</u>
Capital Assets, Being Depreciated				
Land Improvements	6,078,007	4,841,020	-	10,919,027
Buildings and Improvements	91,566,767	35,216,323	-	126,783,090
Equipment	7,645,726	3,040,261	-	10,685,987
Total Capital Assets, Being Depreciated	<u>105,290,500</u>	<u>43,097,604</u>	<u>-</u>	<u>148,388,104</u>
Accumulated Depreciation for:				
Land Improvements	(2,266,328)	(401,230)	-	(2,667,558)
Buildings and Improvements	(40,392,143)	(2,841,691)	-	(43,233,834)
Equipment	(4,266,080)	(642,545)	-	(4,908,625)
Total Accumulated Depreciation	<u>(46,924,551)</u>	<u>(3,885,466)</u>	<u>-</u>	<u>(50,810,017)</u>
Total Capital Assets, Being Depreciated, Net	<u>58,365,949</u>	<u>39,212,138</u>	<u>-</u>	<u>97,578,087</u>
Governmental Activities Capital Assets, Net	<u>\$ 103,295,022</u>	<u>\$ 56,975,869</u>	<u>\$ (45,498,398)</u>	<u>\$ 114,772,493</u>

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

Governmental Activities	
Administration	\$ 13,948
District Support Services	4,547
Regular Instruction	3,547,241
Vocational Education Instruction	1,662
Special Education Instruction	4,847
Instructional Support Services	65,735
Pupil Support Services	40,161
Sites and Buildings	72,904
Food Service	128,493
Community Service	5,928
Total Depreciation Expense, Governmental Activities	<u>\$ 3,885,466</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

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

Issue Date	Net Interest Rate	Series Number	Original Issue	Maturities	Principal Outstanding	
					Due Within One Year	Total
8/7/2008	3.0% - 4.7%	2008A	33,350,000	2010-2021	\$ 1,785,000	\$ 22,435,000
8/27/2009	1.75% - 5.4%	2009A	11,960,000	2011-2018	5,630,000	5,630,000
9/15/2009	2.0% - 3.5%	2009B	4,060,000	2012-2021	425,000	1,805,000
2/19/2014	4.00%	2014A	69,500,000	2015-2034	2,100,000	60,245,000
1/22/2015	0.65% - 2.5%	2015A	3,680,000	2017-2026	340,000	3,345,000
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	-	5,040,000
Total General Obligation Bonds					<u>\$ 10,280,000</u>	<u>\$ 114,340,000</u>
Bond Premiums					\$ 269,040	\$ 4,056,839
Bond Discounts					(8,296)	(54,615)
Capital Leases Payable					470,338	1,657,296
Severance and Health Benefits Payable					100,000	4,376,872
Compensated Absences Payable					550,559	651,875
					<u>\$ 11,661,641</u>	<u>\$ 125,028,267</u>

B. Minimum Debt Payments

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

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2018	\$ 10,280,000	\$ 4,234,521
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
2023-2027	28,030,000	9,670,612
2028-2032	26,770,000	5,014,900
2033-2034	10,000,000	600,000
Total	<u>\$ 114,340,000</u>	<u>\$ 31,343,939</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 Taxable OPEB Bonds, Series 2009A

On August 27, 2009 the District issued \$11,960,000 of General Obligation Taxable OPEB Bonds, Series 2009A. The proceeds of the issue will be used to pay for post employment benefits. Assets of the OPEB Debt Service fund, together with scheduled 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

General Obligation Crossover Refunding Bonds, Series 2016A

On March 29, 2016 the District issued \$9,700,000 of General Obligation Crossover Refunding Bonds, Series 2016A. The proceeds of the issue will be used to refund the General Obligation School Building Bonds, Series 2008A, which 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.

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 will be used to refund the General Obligation Taxable OPEB Bonds, Series 2009A, which are callable in February 2018. Assets of the Debt Service fund, together with scheduled ad valorem tax levies, are dedicated to retire these bonds.

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 monthly through January 1, 2028.

In August 2012, the District entered into a lease with Riverbend Leasing for nine copiers. The lease is due in monthly payments through July 2017.

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.

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

Total cost of assets under capital lease and the related accumulated depreciation is \$2,172,224 and \$617,246, respectively.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Capital Lease Payable (Continued)

The following is a schedule of the future minimum principal and interest lease payments under the capital leases as of June 30, 2017:

<u>Year Ending June 30,</u>	
2018	\$ 547,383
2019	484,799
2020	106,404
2021	106,404
2022	106,404
2023-2027	532,020
2028	<u>62,068</u>
Total Minimum Lease Payments	\$ 1,945,482
Less: Amounts Representing Interest	<u>288,186</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 1,657,296</u></u>

Severance and Wellness Benefits Payable

Severance and wellness benefits payable consists 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 30th, certain employee groups may carry forward up to one year of unpaid vacation. At June 30, 2017, unpaid vacation totaling \$651,875 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, 2016	Additions	Retirements	June 30, 2017
Bonds Payable	\$ 119,505,000	\$ -	\$ 5,165,000	\$ 114,340,000
Bond Premiums	4,325,879	-	269,040	4,056,839
Bond Discount	(62,911)	-	(8,296)	(54,615)
Capital Leases Payable	2,220,378	-	563,082	1,657,296
Severance and Wellness Benefits Payable	4,759,340	226,070	608,538	4,376,872
Compensated Absences Payable	576,884	719,546	644,555	651,875
Total	<u>\$ 131,324,570</u>	<u>\$ 945,616</u>	<u>\$ 7,241,919</u>	<u>\$ 125,028,267</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017 was \$757,682. Some of these operating leases are funded through the lease levy.

Minimum rental commitments on leases in effect at June 30, 2017 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2018	\$ 627,863
2019	415,383
2020	298,501
Total	<u>\$ 1,341,747</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 Deferred Maintenance

Restricted for deferred maintenance represents available resources to be used for those approved activities having a useful life of five years or more. Under Minnesota statute, this restriction may have a deficit balance in anticipation of aid/levy receipts.

C. 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.

D. 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

E. 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.

F. Restricted for Learning and Development

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

G. Restricted for Community Education

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

H. Restricted for Early Childhood and Family Education

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

I. Restricted for Teacher Development and Evaluation

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

J. Restricted for Basic Skills Programs

In accordance with state statute, this restriction represents available resources dedicated exclusively for meeting the educational needs of pupils who enroll under-prepared for learners of their age.

K. 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.

L. 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.

M. Restricted for Safe Schools Levy

Represents available resources to be used only to provide safe schools – crime projects.

N. Restricted for Long-Term Facilities Maintenance (LTFM)

Represents unspent general obligation bond proceeds used to finance facilities maintenance plans approved by its board and the commissioner.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

O. Restricted for Medical Assistance

Represents resources to be used for Medical Assistance expenditures.

P. Restricted for Other Purposes

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

Q. 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 and TRA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*. PERA and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 2017. In fiscal year 2017 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, 2017, were \$1,074,876. 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:

	2017	
	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, 2017, were \$3,377,709. 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, 2017, the District reported a liability of \$16,758,656 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 in 2016. The State of Minnesota is considered a nonemployer contributing District 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 \$218,879. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.2064%. The District's proportionate share at June 30, 2015 was 0.2122%.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$1,755,575 for its proportionate share of GERF's pension expense. In addition, the District recognized \$65,263 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, 2017, 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	\$ 49,599	\$ 1,361,392
Changes in Actuarial Assumptions	3,614,438	-
Net Difference Between Projected and Actual		
Earnings on Plan Investments	1,870,989	-
Changes in Proportion and Differences Between		
District Contributions and Proportionate		
Share of Contributions	-	816,967
District Contributions Subsequent to the		
Measurement Date	1,074,876	-
Total	<u>\$ 6,609,902</u>	<u>\$ 2,178,359</u>

Of the resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$1,074,876 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	\$ 797,951
2019	415,274
2020	1,538,090
2021	605,352
2022	-
Thereafter	-

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$187,885,245 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2016, 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 0.7877% at the end of the measurement period and 0.7653% 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	\$ 187,885,245
State's Proportionate Share of the Net Pension Liability Associated with the District	18,859,548

There was a change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date. Postretirement benefit adjustments are now assumed to remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the District recognized pension expense of \$27,769,998. It also recognized \$2,633,318 as pension expense for the support provided by direct aid.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

At June 30, 2017, 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	\$ 1,840,413	\$ 5,238
Changes in Actuarial Assumptions	107,139,324	-
Net Difference Between Projected and Actual		
Earnings on Plan Investments	8,128,040	-
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	1,730,981	641,345
District Contributions Subsequent to the Measurement Date	3,377,709	-
Total	<u>\$ 122,216,467</u>	<u>\$ 646,583</u>

Of the resources related to pensions resulting from District contributions to TRA subsequent to the measurement date, \$3,377,709 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	\$ 23,388,469
2019	23,388,469
2020	26,075,032
2021	24,238,962
2022	21,101,243
Thereafter	-

3. Aggregate Pension Costs

	TRA	GERF	Total
Net Pension Liability	\$ 187,885,245	\$ 16,758,656	\$ 204,643,901
Deferred Outflows of Resources	122,216,467	6,609,902	128,826,369
Deferred Inflows of Resources	646,583	2,178,359	2,824,942
Pension Expense	28,033,336	1,820,838	29,854,174

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50% per Year	2.75%
Active Member Payroll Growth	3.25% per Year	3.5% per Year
Investment Rate of Return	7.50%	8.00%

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, 2016, 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.

The following changes in actuarial assumptions for General Employees Fund occurred in 2016:

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

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date for TRA. Postretirement benefit adjustments are now assumed to be 2.0% annually. The prior year valuation assumed a 2.5% increase commencing July 1, 2034.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.5% for GERP and 4.66% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45 %	5.50%
International Equity	15	6.00%
Bonds	18	1.45%
Alternative Assets	20	6.40%
Cash	2	0.50%
Totals	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total General Employees Plan pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the TRA pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 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 was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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	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	\$ 23,802,259	\$ 16,758,656	\$ 10,956,645
<u>TRA Discount Rate</u>	3.66%	4.66%	5.66%
District's Proportionate Share of the TRA Net Pension Liability	\$ 242,043,156	\$ 187,885,245	\$ 143,775,391

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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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

NOTE 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, 2017, 2016, and 2015 are \$718,510, \$692,907, and \$607,778, respectively. The related employee contributions were \$1,398,349, \$1,574,951, and \$1,414,785, for the years ended June 30, 2017, 2016, and 2015, respectively.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POST EMPLOYMENT 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

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 2017, total contributions to the plan were \$324,881.

C. Investment policy

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

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 5.40%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Actuarial Valuation

Van Iwaarden Associates has conducted the actuarial valuation of the District's postretirement benefit plans. The most recent report, dated June 30, 2016 documents the Plan's fiscal year 2017 obligations based on GASB Statement No. 45. It also provides information useful in future planning of the postretirement benefit plans. The valuation was conducted in accordance with generally accepted actuarial principles and practices, including the applicable actuarial standards of practice as issued by the Actuarial Standards Board. Future actuarial measurements may differ significantly from the current measurement presented in the June 30, 2016 report due to factors such as: a) plan experience differing from that anticipated by the economic or demographic assumptions; b) changes in economic or demographic assumptions; c) increases or decreases expected as part of the natural operation of the methodology used; and e) changes in plan provisions or applicable law.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Annual OPEB Cost and Net OPEB Asset

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

Annual Required Contribution	\$ 1,303,223
Interest on Net OPEB Obligation	(213,371)
Adjustment to Annual Required Contribution	299,213
Annual OPEB Cost (Expense)	<u>1,389,065</u>
Contributions Made	<u>(324,881)</u>
Increase in Net OPEB Obligation	1,064,184
Net OPEB Obligation - Beginning of Year	(5,020,495)
Net OPEB Obligation - End of Year	<u><u>\$ (3,956,311)</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB asset for 2017, and the two preceding years is:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 1,389,065	23.4%	\$ (3,956,311)
6/30/2016	1,292,293	36.3%	(5,020,495)
6/30/2015	1,275,242	28.1%	(6,760,592)

F. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$5,965,136. The annual payroll for active employees covered by the plan in the actuarial valuation was \$58,407,385 for a ratio of UAAL to covered payroll of 10.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

G. Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the entry normal age actuarial cost method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 6.8%, reduced by decrements to an ultimate rate of 4.4% in 2075. The UAAL is being amortized as a level dollar amount over 30 years. The remaining amortization period at June 30, 2017 does not exceed 30 years.

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	July 1, 2016
Actuarial Cost Method	Entry age normal
Amortization Method	Open, level dollar amount
Inflation	2.75%
Salary Increases	2.75%
Investment Rate of Return	4.25%
Health Care Trend Rates	6.80% grading to 4.40% in 2075

H. GASB 74 Information

Actuarial Methods and Assumptions

The total OPEB liability is based on the June 30, 2016 valuation data rolled forward to June 30, 2017. The methods, assumptions, and participant data used are detailed above as they are also used in the GASB 45 assumptions.

Net OPEB Liability of the Plan

The components of the net OPEB liability of the Plan at June 30, 2017 were as follows:

Total OPEB Liability	\$ 19,189,615
Plan Fiduciary Net Position	12,939,048
District's Net OPEB Liability (Asset)	<u>\$ 6,250,567</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	67.43%

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

H. GASB 74 Information (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 4.99%. This calculation assumes that the members and the District will contribute pay-as-you-go rather than the required actuarially determined contributions. Based on that assumption, the plan's fiduciary net position is expected to run out of assets in the year 2042, therefore having insufficient assets available to make all future benefit payments of current plan members. A blended discount rate is determined based on the fully funded rate of 6.00% when asset are available prior to 2042, and the unfunded rate of 3.53% for 2042 and beyond. The long-term nominal expected rate of return on OPEB plan investments was determined using a building block method where return expectations are established for each asset class.

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%	5.58%	8.33%
International Equity	10.00%	5.71%	8.46%
Fixed Income	70.00%	2.27%	5.02%
Real Estate and Alternatives	0.00%	4.44%	7.19%
Cash and Equivalents	0.00%	0.84%	3.59%
Net Assumed Investment Return (Weighted Avg Rounded to 1/4%)			6.00%

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 (3.99%) or one percentage point higher (5.99%) than the current discount rate:

	1% Decrease (3.99%)	Current Discount Rate (4.99%)	1% Increase (5.99%)
Net OPEB Liability (Asset)	\$ 7,655,197	\$ 6,250,567	\$ 4,932,792

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

H. GASB 74 Information (Continued)

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 (5.80% decreasing to 3.40%) or one percentage point higher (7.80% decreasing to 5.40%) than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease (5.80% grading to 3.40%)	Current Trend (6.80% grading to 4.40%)	1% Increase (7.80% grading to 5.40%)
Net OPEB Liability (Asset)	\$ 4,501,794	\$ 6,250,567	\$ 8,288,657

Trust Funds

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

ASSETS

Cash and Investments	\$ 12,939,033
Other Assets	15
Total Assets	12,939,048

LIABILITIES

-

NET POSITION

Held in Trust for Payment of OPEB Benefits	\$ 12,939,048
--	---------------

ADDITIONS

Employer Contributions	\$ 320,614
Earnings on Investments	770,920
Total Additions	1,091,534

DEDUCTIONS

Retirement Benefits	1,184,802
Administrative Costs	59,480
Total Deductions	1,244,282

Change in Net Position (152,748)

Net Position - Beginning of Year	13,091,796
Net Position - End of Year	\$ 12,939,048

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 94,581,270	\$ 95,612,828	\$ 1,031,558
Special Revenue Funds:			
Food Service Fund	4,114,085	4,497,405	383,320
Community Service Fund	6,445,501	6,563,757	118,256
Debt Service Fund	9,166,931	9,594,808	427,877

These additional expenditures were paid for with available fund balance.

NOTE 11 SELF-INSURED DENTAL PLAN

The District has elected to self-insure its employee dental insurance program. The District has entered into an agreement with an insurance company to provide claims processing and other administrative duties. The District has not elected to purchase stop-loss insurance. However, the claims processor has indicated that the District will not be held liable for amounts in excess of 125% of the total projected claims as calculated by the claims processor, or \$677,492. 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 \$601,188 for the year ended June 30, 2017.

The liability for unpaid claims included in the Internal Service Fund as claims payable for 2017 and the preceding year were:

	<u>2017</u>	<u>2016</u>
Beginning of Fiscal Year Liability - July 1,	\$ 314,822	296,675
Incurred Claims	549,871	531,868
Claims Payments	(544,713)	(513,721)
End of Fiscal Year Liability - June 30,	<u>\$ 319,980</u>	<u>\$ 314,822</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District has joined together with other School Districts in southcentral Minnesota in the Southcentral Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health and insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote. The District self-insures for dental insurance offered to its employees. The District purchases commercial insurance coverage for all other risks of loss.

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

NOTE 13 COMMITMENTS AND CONTINGENCIES

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, 2017 the District had entered in various construction contracts for the construction and betterment of school facilities. Total remaining commitments under these contracts were \$4,985,368.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFIT PLAN
JUNE 30, 2017**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Fund Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2016	\$ 12,227,608	\$ 18,192,744	\$ 5,965,136	67.2%	\$ 58,407,385	10.2%
7/1/2014	13,208,830	17,263,690	4,054,860	76.5%	53,151,668	7.6%
7/1/2012	12,371,483	16,933,509	4,562,026	73.1%	44,635,043	10.2%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Schedule of Employer Contributions

Year Ended	Required Contribution	Employer Contribution	Percentage Contributed
6/30/2017	\$ 1,303,223	\$ 324,881	24.9%
6/30/2016	1,203,810	468,550	38.9%
6/30/2015	1,175,773	358,890	30.5%
6/30/2014	1,094,445	302,940	27.7%
6/30/2013	1,234,007	351,018	28.4%
6/30/2012	1,140,743	326,460	28.6%
6/30/2011	1,125,688	1,042,212	92.6%
6/30/2010	1,976,462	12,840,714	649.7%
6/30/2009	1,976,462	879,537	44.5%

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

	2017
Total OPEB Liability	
Service Cost	\$ 943,134
Interest	898,557
Changes in Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	(481,998)
Benefit Payments	(1,184,802)
Net Change in Total OPEB Liability	174,891
Total OPEB Liability - Beginning	19,014,724
Total OPEB Liability - Ending (a)	\$ 19,189,615
 Plan Fiduciary Net Position	
Contributions - Employer	\$ 320,614
Net Investment Income	711,440
Benefit Payments	(1,184,802)
Administrative Expenses	-
Net Change in Plan Fiduciary Net Position	(152,748)
Plan Fiduciary Net Position - Beginning	13,091,796
Plan Fiduciary Net Position - Ending (b)	\$ 12,939,048
 District's Net OPEB Liability (Asset) - Ending (a) - (b)	\$ 6,250,567
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	67.43%
 Covered-Employee Payroll for Measurement Period	\$ 59,764,196
 District's Net OPEB Liability (Asset) as a Percentage of covered-employee Payroll	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:	None
Discount Rate:	
6/30/2017	4.99%

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

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

	Measurement Date June 30,		
	2016	2015	2014
District's Proportion of the Net Pension Liability	0.2064%	0.2120%	0.2340%
District's Proportionate Share of the Net Pension Liability	\$ 16,758,656	\$ 10,997,305	\$ 10,968,660
State's Proportionate Share of the Net Pension Liability Associated with District	218,879	-	-
Total	<u>\$ 16,977,535</u>	<u>\$ 10,997,305</u>	<u>\$ 10,968,660</u>
District's Covered Payroll	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	131.58%	88.29%	89.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.20%	78.70%

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

	Measurement Date June 30,		
	2016	2015	2014
District's Proportion of the Net Pension Liability	0.7877%	0.7650%	0.8070%
District's Proportionate Share of the Net Pension Liability	\$ 187,885,245	\$ 47,341,374	\$ 37,204,411
State's Proportionate Share of the Net Pension Liability Associated with District	18,859,548	5,807,065	2,617,282
Total	<u>\$ 206,744,793</u>	<u>\$ 53,148,439</u>	<u>\$ 39,821,693</u>
District's Covered Payroll	\$ 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	458.54%	121.87%	100.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 FOUR FISCAL YEARS**

**GERF Schedule of District Contributions
Last Four Fiscal Years**

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

**TRA Schedule of District Contributions
Last Four Fiscal Years**

	Fiscal Year Ending June 30,			
	2017	2016	2015	2014
Statutorily Required Contribution	\$ 3,378,207	\$ 3,105,175	\$ 2,941,663	\$ 2,580,038
Contributions in Relation to the Statutorily Required Contribution	(3,378,207)	(3,105,175)	(2,941,663)	(2,580,038)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 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%	7.00%

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, 2017**

	Fund Equities June 30, 2016	Revenues	Expenditures	Other Financing Sources (Uses)	Transfers	Fund Equities June 30, 2017
GOVERNMENTAL FUNDS						
General Fund						
Nonspendable	\$ 11,605	\$ -	\$ -	\$ -	\$ 31,396	\$ 43,001
Restricted for Staff Development	399,046	1,119,409	(1,117,372)	-	-	401,083
Restricted for Health and Safety	(509,774)	607,669	-	-	-	97,895
Restricted for Deferred Maintenance	54,725	-	(54,725)	-	-	-
Restricted for Operating Capital	2,368,574	3,110,275	(4,352,067)	-	-	1,126,782
Restricted for Learning and Development	1,013,504	2,047,522	(2,249,944)	-	-	811,082
Restricted for Gifted and Talented	-	119,930	(119,930)	-	-	-
Restricted for Teacher Development and Evaluation	114,126	-	(35,846)	-	-	78,280
Restricted for Basic Skills	454,580	4,379,313	(4,833,893)	-	-	-
Restricted for Career and Technical Programs	-	258,958	(258,958)	-	-	-
Restricted for Safe Schools - Crime	-	327,699	(327,699)	-	-	-
Restricted for Long-Term Facilities Maintenance	-	1,795,811	(1,795,811)	-	-	-
Restricted for Medical Assistance	-	1,041,678	(164,709)	-	-	876,969
Assigned for Separation/Retirement Benefits	690,000	-	-	-	-	690,000
Unassigned	11,576,567	78,700,276	(80,301,874)	-	(31,396)	9,943,573
Total General Fund	<u>16,172,953</u>	<u>93,508,540</u>	<u>(95,612,828)</u>	<u>-</u>	<u>-</u>	<u>14,068,665</u>
Food Service Fund						
Nonspendable	87,694	-	-	-	(40,568)	47,126
Restricted for Food Service	1,125,159	4,504,354	(4,497,405)	-	40,568	1,172,676
Total Food Service	<u>1,212,853</u>	<u>4,504,354</u>	<u>(4,497,405)</u>	<u>-</u>	<u>-</u>	<u>1,219,802</u>
Community Service Fund						
Nonspendable	28,681	-	-	-	(28,681)	-
Restricted for Community Education	709,376	3,805,837	(4,200,981)	-	28,681	342,913
Restricted for E.C.F.E.	611,865	559,440	(440,522)	-	-	730,783
Restricted for School Readiness	187,352	785,569	(483,073)	-	-	489,848
Restricted for Adult Basic Education	67,196	1,226,470	(1,183,172)	-	-	110,494
Restricted for Community Service	1	256,008	(256,009)	-	-	-
Total Community Service Fund	<u>1,604,471</u>	<u>6,633,324</u>	<u>(6,563,757)</u>	<u>-</u>	<u>-</u>	<u>1,674,038</u>
Capital Projects Fund						
Restricted for Capital Projects	18,981,272	104,979	(14,819,486)	-	-	4,266,765
Total Capital Projects Fund	<u>18,981,272</u>	<u>104,979</u>	<u>(14,819,486)</u>	<u>-</u>	<u>-</u>	<u>4,266,765</u>
Debt Service Fund						
Restricted for Bond Refundings	16,139,458	(24,957)	(368,203)	-	-	15,746,298
Restricted for Debt Service	496,785	8,543,651	(8,139,062)	-	-	901,374
Total Debt Service Fund	<u>16,636,243</u>	<u>8,518,694</u>	<u>(8,507,265)</u>	<u>-</u>	<u>-</u>	<u>16,647,672</u>
OPEB Debt Service Fund						
Restricted for Bond Refundings	4,989,997	12,400	(63,431)	-	-	4,938,966
Restricted for OPEB Debt Service	323,932	983,873	(1,024,112)	-	-	283,693
Total OPEB Debt Service Fund	<u>5,313,929</u>	<u>996,273</u>	<u>(1,087,543)</u>	<u>-</u>	<u>-</u>	<u>5,222,659</u>
TOTAL GOVERNMENTAL FUNDS	<u>59,921,721</u>	<u>114,266,164</u>	<u>(131,088,284)</u>	<u>-</u>	<u>-</u>	<u>43,099,601</u>
FIDUCIARY FUNDS						
Trust Fund						
Restricted for Scholarships and Other Purposes	95,333	16,335	(35,952)	-	-	75,716
OPEB Trust Fund						
Restricted for Payment of OPEB Benefits	13,091,796	1,091,534	(1,244,282)	-	-	12,939,048
TOTAL FIDUCIARY FUNDS	<u>13,187,129</u>	<u>1,107,869</u>	<u>(1,280,234)</u>	<u>-</u>	<u>-</u>	<u>13,014,764</u>
PROPRIETARY FUNDS						
Internal Service Fund						
Unrestricted	24,015	596,601	(601,188)	-	-	19,428
TOTAL PROPRIETARY FUNDS	<u>24,015</u>	<u>596,601</u>	<u>(601,188)</u>	<u>-</u>	<u>-</u>	<u>19,428</u>
TOTAL ALL FUNDS	<u>\$ 73,132,865</u>	<u>\$ 115,970,634</u>	<u>\$ (132,969,706)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,133,793</u>

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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, 2017**

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>	
U.S. Department of Agriculture				
Passed Through Minnesota Department of Education				
National School Lunch Program				
Noncash Assistance (Commodities):	a	10.555	1-077-000	\$ 239,980
Cash Assistance:	a	10.555	1-077-000	1,663,381
School Breakfast Program	a	10.553	1-077-000	350,358
Summer Food Service Program For Children	a	10.559	1-077-000	270,734
After School Snack	a	10.555	1-077-000	14,020
Special Milk Program for Children	a	10.556	1-077-000	4,484
Total U.S. Department of Agriculture				<u>2,542,957</u>
U.S. Department of Education				
Passed Through Minnesota Department of Education				
Adult Basic Education State Grant Program	b	84.002	**	106,110
ABE EL - Civics Competition Allocation	b	84.002	**	50,000
Title I, Part A - Grants to Local Educational Agencies		84.010	**	1,198,136
Special Education Grants to States	c	84.027	**	1,689,313
Special Education Preschool Grants	c	84.173	**	50,754
Special Education Grants for Infants and Families With Disabilities	d	84.181	**	57,018
Title III, Part A - English Language Acquisition Grants		84.365	**	53,333
Title II, Part A - Supporting Effective Instruction State Grants		84.367	**	200,744
Total Passed Through Minnesota Department of Education				<u>3,405,408</u>
Passed Through South Central Service Cooperative				
IDEA, Part C - Regional IEIC Grant for Children Ages 0-2	d	84.181	**	2,100
Career and Technical Education - Basic Grants to States		84.048	**	20,500
Total Passed Through South Central Service Cooperative				<u>22,600</u>
Total U.S. Department of Education				<u>3,428,008</u>
U.S. Department of Labor				
Passed Through South Central Workforce Council				
TAACCCT Grant Career Pathways		17.282	**	12,344
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Human Services				
Temporary Assistance for Needy Families		93.558	**	17,721
Total Federal Awards Expended				<u>\$ 6,001,030</u>

* - Pass-through number unavailable

a Child Nutrition Cluster Total Expenditures = \$2,542,957

b Adult Basic Education Cluster Total Expenditures = \$156,110

c Special Education Cluster Total Expenditures = \$1,740,067

d Early Intervention Cluster Total Expenditures = \$59,118

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

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, 2016. 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, 2017, 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 December 4, 2017.

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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
December 4, 2017



**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, 2016. 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, 2017.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



CliftonLarsonAllen LLP

Austin, Minnesota
December 4, 2017

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, 2017, and the related notes to the financial statements and have issued our report thereon dated December 4, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts* 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*. 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 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

Austin, Minnesota
December 4, 2017

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

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)? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? reported _____ yes x none
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, 2017**

Section II – Findings Related to the General Purpose Financial Statements

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Awards Findings and Questioned Costs

Our audit did not disclose any matters required to be reported under the Uniform Guidance.

Section IV – Minnesota Legal Compliance Findings

None noted.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2017**

	AUDIT	UFARS	DIFFERENCE		AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 93,508,540	\$ 93,508,539	\$ 1	Total Revenue	\$ 104,979	\$ 104,979	\$ -
Total Expenditures	95,612,828	95,612,824	4	Total Expenditures	14,819,486	14,819,486	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	43,001	43,001	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	401,083	401,083	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	97,895	97,895	-	413 Projects Funded by COP	-	-	-
407 Capital Project Levy	-	-	-	464 Restricted Fund Balance	4,266,765	4,266,765	-
408 Cooperative Programs	-	-	-	<i>Unassigned:</i>			
413 Projects Funded by COP	-	-	-	463 Unassigned Fund Balance	-	-	-
414 Operating Debt	-	-	-				
416 Levy Reduction	-	-	-	07 DEBT SERVICE			
417 Taconite Building Maintenance	-	-	-	Total Revenue	8,518,694	8,518,695	(1)
424 Operating Capital	1,126,782	1,126,782	-	Total Expenditures	8,507,265	8,507,266	(1)
426 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable Fund Balance	-	-	-
428 Learning and Development	811,082	811,082	-	<i>Restricted:</i>			
434 Area Learning Center	-	-	-	425 Bond Refunding	15,746,298	15,746,298	-
435 Contracted Alternative Programs	-	-	-	451 QZAB and QSCB Payments	-	-	-
436 State-Approved Alternative Programs	-	-	-	464 Restricted Fund Balance	901,374	901,374	-
438 Gifted and Talented	-	-	-	<i>Unassigned:</i>			
440 Teacher Development and Evaluations	78,280	78,280	-	463 Unassigned Fund Balance	-	-	-
441 Basic Skills Programs	-	-	-				
445 Career and Technical Programs	-	-	-	08 TRUST			
448 Achievement and Integration	-	-	-	Total Revenue	16,335	16,335	-
449 Sage Schools Crime Levy	(209,114)	(209,114)	-	Total Expenditures	35,952	35,951	1
451 QZAB Payments	-	-	-	<i>Net Position:</i>			
452 OPEB Liability Not Held in Trust	-	-	-	422 Net Position	75,716	75,717	(1)
453 Unfunded Severance & Retirement Levy	-	-	-				
464 Restricted Fund Balance	-	-	-	20 INTERNAL SERVICE			
467 LTFM	(266,144)	(266,144)	-				
472 Medical Assistance	876,969	876,969	-	Total Revenue	596,601	596,601	-
<i>Committed:</i>				Total Expenditures	601,188	601,188	-
418 Committed for Separation	-	-	-	<i>Net Position:</i>			
461 Committed Fund Balance	-	-	-	422 Net Position	19,428	19,428	-
<i>Assigned:</i>							
462 Assigned Fund Balance	690,000	690,000	-	25 OPEB REVOCABLE TRUST			
<i>Unassigned:</i>				Total Revenue	-	-	-
422 Unassigned Fund Balance	10,418,831	10,418,831	-	Total Expenditures	-	-	-
				<i>Net Position:</i>			
02 FOOD SERVICE				422 Net Position	-	-	-
Total Revenue	4,504,354	4,504,352	2				
Total Expenditures	4,497,405	4,497,404	1	45 OPEB IRREVOCABLE TRUST			
<i>Nonspendable:</i>				Total Revenue	1,091,534	1,091,534	-
460 Nonspendable Fund Balance	47,126	47,126	-	Total Expenditures	1,244,282	1,244,282	-
<i>Restricted:</i>				<i>Net Position:</i>			
452 OPEB Liability Not Held in Trust	-	-	-	422 Net Position	12,939,048	12,939,048	-
464 Restricted Fund Balance	1,172,676	1,172,675	1				
<i>Unassigned:</i>				47 OPEB DEBT SERVICE			
463 Unassigned Fund Balance	-	-	-	Total Revenue	996,273	996,273	-
				Total Expenditures	1,087,543	1,087,543	-
04 COMMUNITY SERVICE				<i>Nonspendable:</i>			
Total Revenue	6,633,324	6,633,323	1	460 Nonspendable Fund Balance	-	-	-
Total Expenditures	6,563,757	6,563,755	2	<i>Restricted:</i>			
<i>Nonspendable:</i>				425 Bond Refunding	4,938,966	4,938,966	-
460 Nonspendable Fund Balance	-	-	-	464 Restricted Fund Balance	283,693	283,693	-
<i>Restricted:</i>				<i>Unassigned:</i>			
426 \$25 Taconite	-	-	-	463 Unassigned Fund Balance	-	-	-
431 Community Education	342,913	342,913	-				
432 E.C.F.E.	730,783	730,783	-				
440 Teacher Development and Evaluations	-	-	-				
444 School Readiness	489,848	489,848	-				
447 Adult Basic Education	110,494	110,494	-				
452 OPEB Liability Not Held in Trust	-	-	-				
464 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							

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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, 2017, 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 U.S. Generally Accepted Accounting Principles

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 accounting principles generally accepted in the United States of America.

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 U.S. Generally Accepted Accounting Principles


In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial 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 2017, 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, 2017, 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

Austin, Minnesota
December 4, 2017

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

	Balance 6/30/2016	Receipts	Disbursements and Transfers	Balance 6/30/2017
WEST HIGH				
Academic Athletic	\$ 1,236	\$ 1,206	\$ 1,732	\$ 710
AVID 11/12	12	-	-	12
Knowledge Bowl	307	-	-	307
Band	1,630	11,395	11,109	1,916
Boys Cross Country	649	1,160	318	1,491
Boys Soccer	1,984	1,220	1,028	2,176
Boys Swimming and Dive	398	-	-	398
Boys Track and Field	-	578	281	297
Choir	11,247	6,346	4,743	12,850
Distributive Education Club of America	5,722	3,978	5,855	3,845
Drama Fund	25,975	7,922	8,744	25,153
Fashions NY	948	-	-	948
Football Fund	4,520	14,656	14,238	4,938
French Language	-	535	135	400
German Language	13,432	1,143	14,575	-
Girls and Boys Tennis	311	149	-	460
Girls Gymnastics	10	-	-	10
Girls Hockey	-	1,091	279	812
Girls Soccer	8,727	1,450	1,477	8,700
Girls Swimming and Dive	1,992	3,957	2,996	2,953
History Club	-	902	902	-
Hockey Clinic	9,614	-	7,192	2,422
Interest	(333)	654	-	321
Key Club	412	2,790	2,674	528
Language Club	109	-	-	109
National Honor Society	1,649	1,340	858	2,131
Orchesis	8,187	9,092	5,072	12,207
Orchestra	1,407	3,673	1,727	3,353
OTAK Projects	18,425	9,034	538	26,921
Photo/Art Field Trips	855	620	1,358	117
Prom Fund	5,888	7,177	6,256	6,809
Hall of Fame	(9)	1,526	1,516	1
Senior Class	57	-	-	57
Senior Science	(151)	1,735	1,093	491
Speech	-	2,022	1,620	402
Student Council	5,191	3,124	2,794	5,521
Summer Athletic Camp - Boys	1,536	3,150	4,251	435
Summer Athletic Camp - Girls	4,390	1,520	5,571	339
Valley Fair Fund	100	983	720	363
Volleyball	(442)	1,089	331	316
Washington DC Trip	1	-	-	1
West Connection	18	-	-	18
Wrestling	7	-	-	7
Yell Club	9	-	-	9
Vex Robotics	2,962	51,071	42,728	11,305
Girls Track and Field	394	578	281	691
Girls Lacrosse	20	2,544	947	1,617
TOTAL WEST HIGH	<u>139,396</u>	<u>161,410</u>	<u>155,939</u>	<u>144,867</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 THE YEAR ENDED JUNE 30, 2017**

	Balance 6/30/2016	Receipts	Disbursements and Transfers	Balance 6/30/2017
EAST HIGH				
Arboretum Project	\$ 3,860	\$ -	\$ 519	\$ 3,341
Art Club	849	3,416	3,572	693
Astronomy Club	1,431	-	377	1,054
AVID Club	303	-	-	303
Band	6,192	1,655	489	7,358
Baseball Fund	15,851	2,683	15,751	2,783
Boys Basketball	3,059	12,852	12,655	3,256
Boys Cross Country	1,432	1,702	1,404	1,730
Boys Golf	(834)	1,752	917	1
Boys Hockey Fund	-	5,770	5,770	-
Boys Lacrosse	581	4,292	2,804	2,069
Boys Soccer	2,371	4,175	4,255	2,291
Boys Tennis	-	500	23	477
Boys and Girls Swim Fund	(109)	3,783	3,079	595
Choir	18,377	23,712	12,968	29,121
Climbing Wall	292	-	-	292
Dance Company	912	1,756	706	1,962
DECA Conference	98	-	-	98
Distributive Education Club of America	7,971	16,573	17,285	7,259
Drama Fund	929	26,461	18,764	8,626
Fashion Travel	552	-	-	552
Football	2,531	9,847	8,676	3,702
Future Homemakers of America	92	-	-	92
Girls Basketball	3,059	9,953	11,119	1,893
Girls Cross Country	(75)	439	57	307
Girls Golf	1,438	100	162	1,376
Girls Hockey	3,287	8,350	7,434	4,203
Girls Soccer	2,538	2,830	1,927	3,441
Girls Softball	2,763	8,074	8,506	2,331
Girls Swim	1,578	4,957	5,181	1,354
Girls Tennis	105	1,419	1,401	123
Gymnastics	2,624	2,571	3,592	1,603
GSA	92	-	72	20
Hall of Fame	400	-	-	400
Interest, Student Investment	(233)	654	-	421
Key Club	1,701	576	814	1,463
Knowledge Bowl	400	870	696	574
"M" Club	5,541	6,383	8,718	3,206
Math League	409	-	-	409
Media	48	22	70	-
National Honor Society	1,227	600	287	1,540
Orchestra	(2,386)	6,094	289	3,419
Outdoor Education	(655)	3,447	2,285	507
Photo Club	1,605	-	-	1,605
Physics	169	-	-	169
Prom Fund	3,443	14,500	12,390	5,553

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 THE YEAR ENDED JUNE 30, 2017**

	Balance 6/30/2016	Receipts	Disbursements and Transfers	Balance 6/30/2017
EAST HIGH (CONTINUED)				
SADD	\$ 988	\$ -	\$ -	\$ 988
Senior Class	353	1,665	1,000	1,018
Social Studies	156	-	-	156
Speech/Debate	2,622	1,352	2,168	1,806
SPIRIT	28,390	5,161	14,145	19,406
Student Council	747	2,630	2,829	548
Table Tennis	246	-	-	246
Track and Field	2,001	10,150	11,155	996
VEX Robotics	5,483	4,461	7,887	2,057
Volleyball	2,560	6,409	5,203	3,766
World Language Club	795	1,819	659	1,955
Wrestling Fund	5,055	4,068	4,104	5,019
XYZ Club	151	-	58	93
Youth Services	68	-	-	68
TOTAL EAST HIGH	<u>145,433</u>	<u>230,483</u>	<u>224,222</u>	<u>151,694</u>
	Balance 6/30/2016	Receipts	Disbursements and Transfers	Balance 6/30/2017
PRAIRIE WINDS MIDDLE SCHOOL				
Black 7 Team	\$ 1,332	\$ -	\$ -	\$ 1,332
Black 8 Team	1,328	-	-	1,328
Gold 7 Team	1,580	-	-	1,580
Gold 8 Team	1,279	-	50	1,229
Junior High Science Club	215	-	-	215
Junior High Activity	3,483	242	774	2,951
Junior High Author Day	655	-	177	478
Junior High Choir	1,101	-	-	1,101
Junior High Project Right Start	3,018	1,045	409	3,654
Junior High Student Council	1,737	627	892	1,472
Junior High Yearbook	3,261	37	54	3,244
Tech Ed	-	14,731	12,143	2,588
TOTAL PRAIRIE WINDS MIDDLE SCHOOL	<u>18,989</u>	<u>16,682</u>	<u>14,499</u>	<u>21,172</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 THE YEAR ENDED JUNE 30, 2017**

	Balance 6/30/2016	Receipts	Disbursements and Transfers	Balance 6/30/2017
DAKOTA MEADOWS MIDDLE SCHOOL				
Dakota Meadows Student Recognition	7,705	1,189	180	8,714
Dakota Meadows Diversity Program	202	-	-	202
Dakota Meadows Author Day	651	-	-	651
Dakota Meadows Band	158	411	434	135
Dakota Meadows Choir Fund	600	-	-	600
Dakota Meadows Courage Retreat	16	-	-	16
Dakota Meadows Drama Club	405	-	-	405
Dakota Meadows Kasota Trail	205	1,577	1,305	477
Dakota Meadows Mankato Trail	1,265	-	-	1,265
Dakota Meadows Minneopa Trail	1,333	-	-	1,333
Dakota Meadows Minnesota Trail	-	250	-	250
Dakota Meadows Orchestra	10	-	-	10
Dakota Meadows Sakatah Trail	982	-	-	982
Dakota Meadows Science Club	1,031	160	805	386
Dakota Meadows Seventh Grade Transition	2,051	278	349	1,980
Dakota Meadows Student Council	1,298	10,143	9,733	1,708
Dakota Meadows Student Funds	10,126	570	-	10,696
Dakota Meadows Yearbook	4,747	-	-	4,747
TOTAL DAKOTA MEADOWS MIDDLE SCHOOL	32,785	14,578	12,806	34,557
	Balance 6/30/2016	Receipts	Disbursements and Transfers	Balance 6/30/2017
OTHER				
Adult Education Store	\$ 2,511	\$ 5,481	\$ 6,666	\$ 1,326
Bridges	98	-	-	98
Central High School Store	352	1,910	2,095	167
Day Treatment	(335)	5,500	866	4,299
Debate	10,607	-	5,552	5,055
District Science Boards	61	747	808	-
Eagle Lake Elementary	4,037	2,263	3,676	2,624
Students in Need	3,505	-	120	3,385
Franklin Student Council	4,215	-	-	4,215
Garfield Student Council	1,160	-	-	1,160
Guthrie District Transportation	339	3,129	3,010	458
Hard of Hearing	1,876	1,852	3,360	368
Hoover Student Council	1,128	1,587	1,311	1,404
HOSA	6,512	9,314	12,426	3,400
Jefferson Elementary	637	1,924	1,695	866
Monroe Student Council	119	-	-	119
Roosevelt Student Council	1,689	1,563	1,888	1,364
State Capital Trips	7,803	-	-	7,803
Washington PE	-	-	-	-
Washington Student Council	410	2,391	2,403	398
TOTAL OTHER	46,724	37,661	45,876	38,509
	\$ 383,327	\$ 460,814	\$ 453,342	\$ 390,799

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, 2017**

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, 2017, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated December 4, 2017. We expressed an adverse opinion on U.S. generally accepted accounting principles 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 the District 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 2017-001 and 2017-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced provisions.

The District's written responses to the legal compliance findings identified in our audit are described in the Schedule of Findings and Responses. The District'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

Austin, Minnesota
December 4, 2017

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND RESPONSES –
STUDENT ACTIVITY FUNDS
JUNE 30, 2017**

**Finding: 2017-001 MINNESOTA LEGAL COMPLIANCE – STUDENT DISBURSEMENT
APPROVAL**

The *Manual for Activity Fund Accounting* states, “decisions regarding disbursement of money from any activity accounts cannot be made unilaterally by a principal or faculty member. Participation by the students must be supported by minutes, student signatures on purchase orders, requisitions, and check requests.” One of 25 student activity check request forms tested did not contain a student representative signature.

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, 2017.

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, 2017**

Finding: 2017-002 MINNESOTA LEGAL COMPLIANCE – INACTIVE STUDENT ACTIVITY ACCOUNTS

We noted 44 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 January 31, 2018.

Plan to Monitor Completion of CAP:

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

