

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 77
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INTRODUCTORY SECTION

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2016**

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
Jerry Kolander	Director of Business Affairs

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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, 2016, 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, 2016, 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 2015 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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, 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.

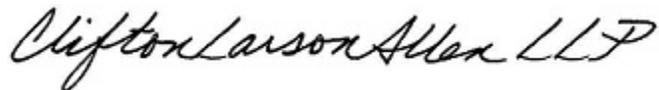
Other Information

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 November 11, 2016 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 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 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
November 11, 2016

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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, 2016**

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, 2016. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-2016 fiscal year include the following:

- Construction has progressed on projects that were approved in the 2013 \$69.5 million dollar bond referendum. The addition of a sixth grade wing to Dakota Meadows Middle School was completed, construction of Prairie Winds Middle School was completed in time for school to start in early September, the remodel of Garfield Elementary was completed and the remodel of East High School is underway.
- The General Fund Balance increased from \$15,304,045 on June 30, 2015 to \$16,172,953 on June 30, 2016.
- Total K-12 Average Daily Membership increased 298 students, up 3.8% from 2014-15. Increased enrollment has had a positive effect on fund balances.
- The Community Service Fund Balance increased from \$1,417,246 on June 30, 2015 to \$1,604,471 on June 30, 2016.
- The District issued General Obligation Crossover Refunding bonds to refund portions of the 2008A General Obligation School Building Bonds and the 2009A General Obligation Taxable OPEB Bonds. The details of each refunding can be found in Note 4 to the financial statements.

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, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position from Governmental activities was negative \$18,364,270 on June 30, 2016 (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		Percentage Change
	2016	2015	
Current and Other Assets	\$ 95,873,726	\$ 113,325,635	-15.40%
Capital and Non-Current Assets	103,295,022	70,011,807	47.54%
Total Assets	<u>199,168,748</u>	<u>183,337,442</u>	8.64%
Deferred Outflows of Resources	11,462,399	9,030,722	26.93%
Current Liabilities	17,756,982	21,531,442	-17.53%
Long-Term Liabilities	183,082,485	156,511,424	16.98%
Total Liabilities	<u>200,839,467</u>	<u>178,042,866</u>	12.80%
Deferred Inflows of Resources	<u>28,155,950</u>	<u>33,994,217</u>	-17.17%
Net Position			
Net Investment in Capital Assets	30,236,385	26,555,890	13.86%
Restricted	12,351,027	14,727,069	-16.13%
Unrestricted	<u>(60,951,682)</u>	<u>(60,951,878)</u>	0.00%
Total Net Position	<u>\$ (18,364,270)</u>	<u>\$ (19,668,919)</u>	-6.63%

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

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

	Governmental Activities for the		Total % Change
	fiscal year ended June 30,		
	2016	2015	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 5,829,778	\$ 5,103,899	14.22%
Operating Grants and Contributions	26,669,100	25,218,878	5.75%
Capital Grants and Contributions	1,118,684	1,419,997	-21.22%
<u>General Revenues</u>			
Property Taxes	20,475,941	20,668,580	-0.93%
Unrestricted State Aid	52,227,686	49,219,867	6.11%
Investment Earnings	264,263	335,812	-21.31%
Other	136,332	25,285	439.18%
Total Revenues	<u>106,721,784</u>	<u>101,992,318</u>	
Expenses			
Administration	3,116,085	2,845,798	9.50%
District Support Services	1,731,101	1,456,323	18.87%
Regular Instruction	45,701,043	42,670,201	7.10%
Vocational Education Instruction	1,072,323	966,661	10.93%
Special Education Instruction	17,835,618	16,249,180	9.76%
Instructional Support Services	7,144,062	5,966,042	19.75%
Pupil Support Services	6,105,919	5,571,998	9.58%
Sites and Buildings	8,073,354	7,602,497	6.19%
Fiscal and Other Fixed Cost Programs	228,524	226,706	0.80%
Food Service	4,103,864	3,948,002	3.95%
Community Service	5,852,574	5,505,052	6.31%
Interest and Fiscal Charges on Long-Term Liabilities	4,452,668	4,489,587	-0.82%
Total Expenses	<u>105,417,135</u>	<u>97,498,047</u>	8.12%
Increase in Net Position	1,304,649	4,494,271	
Beginning Net Position	<u>(19,668,919)</u>	<u>(24,163,190)</u>	
Ending Net Position	<u>\$ (18,364,270)</u>	<u>\$ (19,668,919)</u>	

Changes in Net Position

The District's total revenues were \$106,721,784 for the year ended June 30, 2016. Unrestricted state aid accounted for 49%, property taxes accounted for 19%, operating and capital grants accounted for 26%, and charges for services accounted for 6%. (See Figure A-1).

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$105,417,135. Direct instruction related costs accounted for 61%, student support services accounted for 14%, buildings and equipment costs accounted for 8%, community education services and food service accounted for 10%, administration 3%, and other expenses accounted for 4% of the total. (See Figure A-2)

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

Figure A-1 Sources of District's Revenues for Fiscal 2016

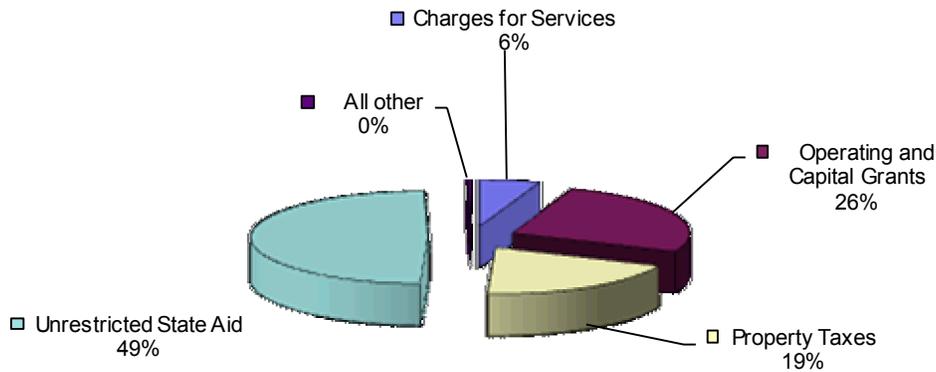
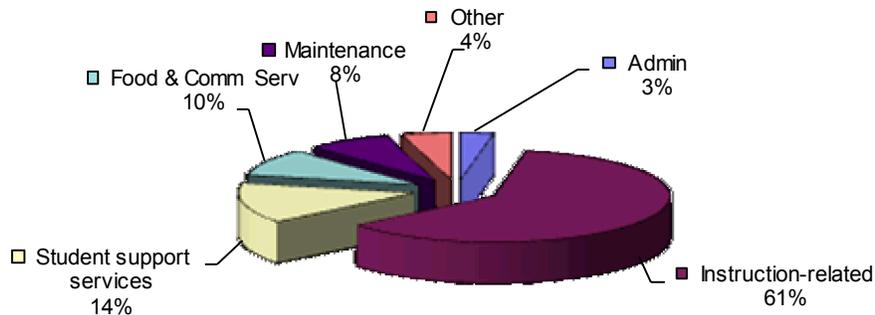


Figure A-2 District Expenses for Fiscal 2016



**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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
Change in Net Position**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2016	2015		2016	2015	
Administration	\$ 3,116,085	\$ 2,845,798	9.50%	\$ 3,115,903	\$ 2,844,579	9.54%
District Support Services	1,731,101	1,456,323	18.87%	1,652,524	1,434,424	15.20%
Regular Instruction	45,701,043	42,670,201	7.10%	36,521,558	33,467,200	9.13%
Vocational Education Instruction	1,072,323	966,661	10.93%	998,166	915,265	9.06%
Special Education Instruction	17,835,618	16,249,180	9.76%	5,566,529	4,272,147	30.30%
Instructional Support Services	7,144,062	5,966,042	19.75%	5,608,976	5,306,518	5.70%
Pupil Support Services	6,105,919	5,571,998	9.58%	5,858,499	5,374,285	9.01%
Sites and Buildings	8,073,354	7,602,497	6.19%	7,459,398	6,841,534	9.03%
Fiscal and Other Fixed Cost Programs	228,524	226,706	0.80%	228,524	226,706	0.80%
Food Service	4,103,864	3,948,002	3.95%	(104,729)	32,960	-417.75%
Community Service	5,852,574	5,505,052	6.31%	628,242	557,919	12.60%
Interest and Fiscal Charges on Long-Term Liabilities	4,452,668	4,489,587	-0.82%	4,265,983	4,481,736	-4.81%
Total	\$ 105,417,135	\$ 97,498,047	8.12%	\$ 71,799,573	\$ 65,755,273	9.19%

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 \$19,399,766 for the year ended June 30, 2016. 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, 2016**

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	2012	2013	2014	2015	2016
EC	117	115	111	118	135
HK	104	90	100	98	96
Kdgt.	529	593	590	574	582
1-3	1,815	1,842	1,892	2,003	2,068
4-6	1,704	1,711	1,707	1,742	1,859
7-12	3,210	3,223	3,245	3,324	3,417
Total K-12 ADM	7,479	7,574	7,645	7,859	8,157
ADM Change	N/A	95	71	214	298
Percent Change	N/A	1.3%	0.9%	2.8%	3.8%

As depicted in Table A-4, average daily membership has increased steadily over the last five years. Certain elementary school sites are encountering 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. A brief description of the construction projects and the construction schedule can be found on the District's website at www.isd77.org.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Local Sources				
Property Taxes	\$ 11,596,909	\$ 11,084,481	\$ 512,428	4.6%
Earnings on Investments	77,634	15,717	61,917	393.9%
Other	1,901,932	1,533,712	368,220	24.0%
State Sources	71,429,929	67,500,702	3,929,227	5.8%
Federal Sources	2,969,890	3,032,569	(62,679)	-2.1%
Total General Fund Revenue	<u>\$ 87,976,294</u>	<u>\$ 83,167,181</u>	<u>\$ 4,809,113</u>	5.8%

Total General Fund Revenue increased by \$4,809,113 or 5.8% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Salaries	\$ 51,705,524	\$ 49,409,503	\$ 2,296,021	4.6%
Employee Benefits	20,043,035	17,827,368	2,215,667	12.4%
Purchased Services	8,665,904	7,237,835	1,428,069	19.7%
Supplies and Materials	3,129,860	3,196,787	(66,927)	-2.1%
Capital Expenditures	4,295,790	4,584,944	(289,154)	-6.3%
Other Expenditures	510,237	522,424	(12,187)	-2.3%
Total Expenditures	<u>\$ 88,350,350</u>	<u>\$ 82,778,861</u>	<u>\$ 5,571,489</u>	6.7%

Total General Fund Expenditures increased \$5,571,489 or about 6.7% from the previous year.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND (CONTINUED)

The total fund balance at June 30, 2016, is \$16,172,953. Of this amount \$3,894,781 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 \$1,212,853, an increase of \$145,289 from June 30, 2015.

Food Service Fund Revenues for the year ended June 30, 2016 totaled \$4,213,667. This was an increase of \$297,568 or 7.6% from the year ended June 30, 2015. Additional meals served and the expansion of the summer food program contributed to the increased revenue.

Food Service Fund Expenditures for the year ended June 30, 2016 totaled \$4,068,378. This was a decrease of \$31,856 or 1% from the year ended June 30, 2015. Equipment purchases for cafeteria renovations were expensed in 2014-15.

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, 2016 is \$1,604,471, an increase of \$187,225 from June 30, 2015.

Community Service Fund Revenues for the year ended June 30, 2016 totaled \$6,082,288. This was an increase of \$268,488 or 4.6% from the year ended June 30, 2015. This increase is largely due to the expansion of the school age care program and the Race to the Top Early Childhood grant.

Community Service Fund Expenditures for the year ended June 30, 2016 totaled \$5,895,063. This was an increase of \$359,901 or 6.5% from the year ended June 30, 2015. This increase is related to additional expenditures in the school age care program and the Race to the Top Early Childhood grant.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2016, the District had invested over \$103 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 \$2,864,872.

**Table A-7
The District's Capital Assets**

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
Land	\$ 4,120,830	\$ 4,120,830	0.0%
Construction in Progress	40,808,243	13,272,707	207.5%
Land Improvements	6,078,007	6,004,738	1.2%
Buildings and Improvements	91,566,767	84,123,855	8.8%
Equipment	7,645,726	6,571,906	16.3%
Less: Accumulated Depreciation	<u>(46,924,551)</u>	<u>(44,082,229)</u>	<u>6.4%</u>
Total	<u><u>\$ 103,295,022</u></u>	<u><u>\$ 70,011,807</u></u>	<u><u>47.5%</u></u>

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 \$16,636,243 as of June 30, 2016 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 2015 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, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had \$125,988,346 in general obligation bonds, bond premium/discount and lease purchase agreements.

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

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 119,505,000	\$ 108,855,000	9.78%
Bond Premium/Discount	4,262,968	4,098,093	4.02%
Capital Leases Payable	2,220,378	1,186,472	87.14%
Net Pension Liability	58,338,679	48,173,072	21.10%
Severance and Wellness Benefits Payable	4,759,340	4,969,299	-4.23%
Compensated Absences Payable	576,884	504,470	14.35%
Total	<u><u>\$ 189,663,249</u></u>	<u><u>\$ 167,786,406</u></u>	<u>13.04%</u>
Long-Term Liabilities:			
Due Within One Year	\$ 6,580,764	\$ 11,274,982	
Due in More Than One Year	183,082,485	156,511,424	
Total	<u><u>\$ 189,663,249</u></u>	<u><u>\$ 167,786,406</u></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, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	Governmental Activities	
	2016	2015
ASSETS		
Cash and Investments	\$ 49,082,597	\$ 85,593,834
Cash and Investments Held by Trustee	21,020,131	3,672,034
Receivables		
Property Taxes	11,503,783	10,239,531
Other Governments	8,716,206	7,482,166
Other	402,534	393,559
Prepaid Items	40,286	57,397
Inventories	87,694	42,876
Prefunded Other Post Employment Benefit Obligations	5,020,495	5,844,238
Capital Assets		
Land and Construction in Progress	44,929,073	17,393,537
Other Capital Assets, Net of Depreciation	58,365,949	52,618,270
Total Assets	<u>199,168,748</u>	<u>183,337,442</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	11,462,399	9,030,722
Total Deferred Outflows of Resources	<u>11,462,399</u>	<u>9,030,722</u>
LIABILITIES		
Salaries and Payroll Deductions Payable	4,685,935	4,039,806
Accounts and Contracts Payable	4,534,521	4,234,543
Accrued Interest	1,813,279	1,843,563
Due to Other Governmental Units	2,602	1,795
Unearned Revenue	139,881	136,753
Long-Term Liabilities		
Portion Due Within One Year	6,580,764	11,274,982
Portion Due in More Than One Year	183,082,485	156,511,424
Total Liabilities	<u>200,839,467</u>	<u>178,042,866</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	21,282,307	19,333,804
Pension Related	6,873,643	14,660,413
Total Deferred Inflows of Resources	<u>28,155,950</u>	<u>33,994,217</u>
NET POSITION		
Net Investment in Capital Assets	30,236,385	26,555,890
Restricted for:		
Operating Capital Purposes	2,368,574	2,152,323
State-Mandated Restrictions	2,035,981	2,449,388
Food Service	1,212,853	1,067,564
Community Service	1,615,210	1,432,508
Capital Projects	97,914	-
Debt Service	-	1,781,048
Other Post Employment Benefit Obligations	5,020,495	5,844,238
Unrestricted	<u>(60,951,682)</u>	<u>(60,951,878)</u>
Total Net Position	<u>\$ (18,364,270)</u>	<u>\$ (19,668,919)</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

<u>Functions</u>	<u>Expenses</u>	<u>2016</u>	
		<u>Charges for Services</u>	<u>Program Operating Grants and Contributions</u>
Governmental Activities			
Administration	\$ 3,116,085	\$ -	\$ -
District Support Services	1,731,101	-	-
Regular Instruction	45,701,043	620,295	8,439,203
Vocational Education Instruction	1,072,323	524	73,633
Special Education Instruction	17,835,618	-	12,267,889
Instructional Support Services	7,144,062	30,650	1,051,614
Pupil Support Services	6,105,919	-	239,790
Sites and Buildings	8,073,354	129,223	26,447
Fiscal and Other Fixed Cost Programs	228,524	-	-
Food Service	4,103,864	1,623,710	2,584,883
Community Service	5,852,574	3,425,376	1,798,956
Interest and Fiscal Charges on Long-Term Liabilities	4,452,668	-	186,685
Total School District	<u>\$ 105,417,135</u>	<u>\$ 5,829,778</u>	<u>\$ 26,669,100</u>

General Revenues

Property Taxes Levied for:
 General Purposes
 Community Service
 Debt Service
State Aid Not Restricted to Specific Purposes
Earnings on Investments
Miscellaneous
 Total General Revenues
Change in Net Position
Net Position - Beginning of Year

Net Position - End of Year

See accompanying Notes to Financial Statements.

	2016	2015
Revenues	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ 182	\$ (3,115,903)	\$ (2,844,579)
78,577	(1,652,524)	(1,434,424)
119,987	(36,521,558)	(33,467,200)
-	(998,166)	(915,265)
1,200	(5,566,529)	(4,272,147)
452,822	(5,608,976)	(5,306,518)
7,630	(5,858,499)	(5,374,285)
458,286	(7,459,398)	(6,841,534)
-	(228,524)	(226,706)
-	104,729	(32,960)
-	(628,242)	(557,919)
-	(4,265,983)	(4,481,736)
<u>\$ 1,118,684</u>	<u>(71,799,573)</u>	<u>(65,755,273)</u>

11,532,442	11,079,455
839,492	861,016
8,104,007	8,728,109
52,227,686	49,219,867
264,263	335,812
136,332	25,285
<u>73,104,222</u>	<u>70,249,544</u>
1,304,649	4,494,271
<u>(19,668,919)</u>	<u>(24,163,190)</u>
<u>\$ (18,364,270)</u>	<u>\$ (19,668,919)</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 19,037,106	\$ 1,213,642	\$ 1,795,973
Cash and Investments Held by Trustee	-	-	-
Receivables			
Current Property Taxes	6,017,779	-	396,657
Delinquent Property Taxes	160,427	-	11,480
Due from Minnesota Department of Education	5,346,506	386	156,913
Due from Federal through Minnesota Department of Education	2,928,056	71,923	207,077
Other Receivables	98,212	12,862	22,328
Prepaid Items	11,605	-	28,681
Inventory	-	87,694	-
Total Assets	<u>\$ 33,599,691</u>	<u>\$ 1,386,507</u>	<u>\$ 2,619,109</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities			
Salaries and Payroll Deductions Payable	\$ 4,488,754	\$ 15,764	\$ 168,429
Accounts and Contracts Payable	1,746,010	69,689	43,954
Due to Other Governmental Units	2,602	-	-
Unearned Revenue	43,931	88,201	7,749
Total Liabilities	<u>6,281,297</u>	<u>173,654</u>	<u>220,132</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	10,996,436	-	783,767
Unavailable Revenue - Delinquent Property Taxes	149,005	-	10,739
Total Deferred Inflows of Resources	<u>11,145,441</u>	<u>-</u>	<u>794,506</u>
Fund Balance			
Nonspendable:			
Prepaid Items	11,605	-	28,681
Inventory	-	87,694	-
Restricted:			
Staff Development	399,046	-	-
Health and Safety	(509,774)	-	-
Deferred Maintenance	54,725	-	-
Operating Capital	2,368,574	-	-
Learning and Development	1,013,504	-	-
Teacher Development and Evaluation	114,126	-	-
Basic Skills Programs	454,580	-	-
Community Education Programs	-	-	709,376
Early Childhood and Family Education Programs	-	-	611,865
School Readiness	-	-	187,352
Adult Basic Education	-	-	67,196
Bond Refundings	-	-	-
Other Purposes:			
Food Service	-	1,125,159	-
Community Service	-	-	1
Capital Projects	-	-	-
Debt Service	-	-	-
OPEB Debt Service	-	-	-
Assigned:			
Separation/Retirement Benefits	690,000	-	-
Unassigned	<u>11,576,567</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>16,172,953</u>	<u>1,212,853</u>	<u>1,604,471</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 33,599,691</u>	<u>\$ 1,386,507</u>	<u>\$ 2,619,109</u>

See accompanying Notes to Financial Statements.

Funds			Total Governmental	
Capital Projects	Debt Service	OPEB Debt Service	Funds	
			2016	2015
\$ 21,191,497	\$ 4,698,964	\$ 806,578	\$ 48,743,760	\$ 85,248,975
-	16,045,713	4,974,418	21,020,131	3,672,034
-	4,316,775	492,136	11,223,347	9,874,506
-	88,387	20,142	280,436	365,025
-	4,696	649	5,509,150	5,738,514
-	-	-	3,207,056	1,743,652
159,809	93,745	15,578	402,534	393,559
-	-	-	40,286	57,397
-	-	-	87,694	42,876
<u>\$ 21,351,306</u>	<u>\$ 25,248,280</u>	<u>\$ 6,309,501</u>	<u>\$ 90,514,394</u>	<u>\$ 107,136,538</u>
\$ 12,988	\$ -	\$ -	\$ 4,685,935	\$ 4,039,806
2,357,046	-	3,000	4,219,699	3,937,868
-	-	-	2,602	1,795
-	-	-	139,881	136,753
<u>2,370,034</u>	<u>-</u>	<u>3,000</u>	<u>9,048,117</u>	<u>8,116,222</u>
-	8,529,674	972,430	21,282,307	19,333,804
-	82,363	20,142	262,249	365,025
-	8,612,037	992,572	21,544,556	19,698,829
-	-	-	40,286	57,397
-	-	-	87,694	42,876
-	-	-	399,046	253,079
-	-	-	(509,774)	(582,833)
-	-	-	54,725	262,335
-	-	-	2,368,574	2,152,323
-	-	-	1,013,504	1,099,327
-	-	-	114,126	148,920
-	-	-	454,580	685,727
-	-	-	709,376	853,867
-	-	-	611,865	410,080
-	-	-	187,352	107,421
-	-	-	67,196	45,878
-	16,139,458	4,989,997	21,129,455	3,675,563
-	-	-	1,125,159	1,024,688
-	-	-	1	-
18,981,272	-	-	18,981,272	54,250,618
-	496,785	-	496,785	3,207,844
-	-	323,932	323,932	341,210
-	-	-	690,000	690,000
-	-	-	11,576,567	10,595,167
<u>18,981,272</u>	<u>16,636,243</u>	<u>5,313,929</u>	<u>59,921,721</u>	<u>79,321,487</u>
<u>\$ 21,351,306</u>	<u>\$ 25,248,280</u>	<u>\$ 6,309,501</u>	<u>\$ 90,514,394</u>	<u>\$ 107,136,538</u>

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	<u>2016</u>	<u>2015</u>
Total Fund Balance for Governmental Funds	\$ 59,921,721	\$ 79,321,487
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	4,120,830	4,120,830
Construction in Progress	40,808,243	13,272,707
Land Improvements, Net of Accumulated Depreciation	3,811,679	4,016,783
Buildings and Improvements, Net of Accumulated Depreciation	51,174,624	45,873,412
Equipment, Net of Accumulated Depreciation	3,379,646	2,728,075
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.		
	262,249	365,025
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(1,813,279)	(1,843,563)
Contributions in excess of the OPEB liability recognized to date, are not current financial resources and therefore are not reported at the fund level.		
	5,020,495	5,844,238
Internal service funds are used by management to charge the costs of 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:		
	24,015	48,184
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:		
Net Pension Liability	(58,338,679)	(48,173,072)
Deferred Outflows of Resources - Pensions	11,462,399	9,030,722
Deferred Inflows of Resources - Pensions	(6,873,643)	(14,660,413)
Bonds Payable	(119,505,000)	(108,855,000)
Unamortized Premiums	(4,325,879)	(4,169,300)
Unamortized Discounts	62,911	71,207
Capital Leases Payable	(2,220,378)	(1,186,472)
Severance and Wellness Benefits Payable	(4,759,340)	(4,969,299)
Compensated Absences Payable	(576,884)	(504,470)
Total Net Position of Governmental Activities	<u>\$ (18,364,270)</u>	<u>\$ (19,668,919)</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, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 11,596,909	\$ -	\$ 844,015
Earnings on Investments	77,634	5,074	7,290
Other	1,901,932	1,623,710	3,472,357
State Sources	71,429,929	201,313	1,481,063
Federal Sources	2,969,890	2,383,570	277,563
Total Revenues	87,976,294	4,213,667	6,082,288
EXPENDITURES			
Current			
Administration	3,034,928	-	-
District Support Services	1,711,050	-	-
Regular Instruction	42,655,044	-	-
Vocational Education Instruction	1,070,852	-	-
Special Education Instruction	17,713,821	-	-
Instructional Support Services	4,660,426	-	-
Pupil Support Services	5,949,454	-	-
Sites and Buildings	7,030,461	-	-
Fiscal and Other Fixed Cost Programs	228,524	-	-
Food Service	-	3,956,125	-
Community Service	-	-	5,867,968
Capital Outlay	4,295,790	112,253	27,095
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	88,350,350	4,068,378	5,895,063
Excess (Deficiency) of Revenues Over (Under) Expenditures	(374,056)	145,289	187,225
OTHER FINANCING SOURCES (USES)			
Proceeds from Capital Lease	1,242,851	-	-
Judgments for School Districts	113	-	-
Proceeds from Sale of Bonds	-	-	-
Bond Premium	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	1,242,964	-	-
Net Change in Fund Balances	868,908	145,289	187,225
Fund Balances - Beginning	15,304,045	1,067,564	1,417,246
Fund Balances - Ending	\$ 16,172,953	\$ 1,212,853	\$ 1,604,471

See accompanying Notes to Financial Statements.

Funds			Total Governmental	
Capital Projects	Debt Service	OPEB Debt Service	Funds	
			2016	2015
\$ -	\$ 7,147,457	\$ 990,336	\$ 20,578,717	\$ 20,647,565
158,527	170,905	31,479	450,909	343,641
-	-	-	6,997,999	6,325,048
-	46,969	6,486	73,165,760	69,096,482
-	-	-	5,631,023	5,558,545
<u>158,527</u>	<u>7,365,331</u>	<u>1,028,301</u>	<u>106,824,408</u>	<u>101,971,281</u>
-	-	-	3,034,928	2,885,628
-	-	-	1,711,050	1,433,609
-	-	-	42,655,044	40,231,413
-	-	-	1,070,852	964,257
-	-	-	17,713,821	16,315,296
-	-	-	4,660,426	4,536,153
-	-	-	5,949,454	5,525,815
-	-	-	7,030,461	6,075,909
-	-	-	228,524	226,706
-	-	-	3,956,125	3,839,134
-	-	-	5,867,968	5,493,108
35,485,270	-	-	39,920,408	18,350,580
-	5,950,000	680,000	6,630,000	7,315,000
-	4,303,675	415,582	4,719,257	4,689,196
<u>35,485,270</u>	<u>10,253,675</u>	<u>1,095,582</u>	<u>145,148,318</u>	<u>117,881,804</u>
(35,326,743)	(2,888,344)	(67,281)	(38,323,910)	(15,910,523)
-	-	-	1,242,851	-
-	-	-	113	-
-	15,840,000	5,040,000	20,880,000	3,680,000
-	401,180	-	401,180	65,626
-	(3,600,000)	-	(3,600,000)	-
<u>-</u>	<u>12,641,180</u>	<u>5,040,000</u>	<u>18,924,144</u>	<u>3,745,626</u>
(35,326,743)	9,752,836	4,972,719	(19,399,766)	(12,164,897)
54,308,015	6,883,407	341,210	79,321,487	91,486,384
<u>\$ 18,981,272</u>	<u>\$ 16,636,243</u>	<u>\$ 5,313,929</u>	<u>\$ 59,921,721</u>	<u>\$ 79,321,487</u>

**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, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	2016	2015
Net Change in Fund Balance-Total Governmental Funds	\$ (19,399,766)	\$ (12,164,897)
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.		
Capital Outlays	36,148,087	14,898,158
Depreciation Expense	(2,864,872)	(2,572,063)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Other Financing Source - Capital Lease	(1,242,851)	-
Change in Accrued Interest Expense - Capital Leases	1,788	1,574
Principal Payments - Capital Leases	208,945	142,234
Pension expenditures in the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.		
	52,840	1,081,111
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 discounts and 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. In the statement of activities, however, interest expense is recognized as it accrues, regardless of 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)	(3,680,000)
Payment to Refunded Bond Escrow Agent	3,600,000	-
Bond Premium	(401,180)	(65,626)
Repayment of Bond Principal	6,630,000	7,315,000
Change in Accrued Interest Expense - General Obligation Bonds	28,496	(23,471)
Amortization of Bond Premium	244,601	229,802
Amortization of Bond Discount	(8,296)	(8,296)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.		
	(102,776)	21,015
In the statement of activities, prefunded other postemployment benefit obligations are measured by amounts earned during the year. In the governmental funds, however, expenditures for this obligation are measured by the amount of financial resources used (essentially, the amounts actually paid).		
	(823,743)	(916,354)
In the statement of activities, certain operating expenses - severance and wellness benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
	137,545	215,691
Internal service funds are used by the District to charge the costs of employee dental benefits to individual funds. The net revenue of the internal service funds is reported with governmental activities.		
	(24,169)	20,393
Change in Net Position of Governmental Activities	\$ 1,304,649	\$ 4,494,271

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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 11,503,180	\$ 11,505,690	\$ 11,596,909	\$ 91,219
Earnings on Investments	-	50,000	77,634	27,634
Other	1,798,200	1,735,700	1,901,932	166,232
State Sources	67,947,737	70,064,426	71,429,929	1,365,503
Federal Sources	2,845,962	2,855,830	2,969,890	114,060
Total Revenues	<u>84,095,079</u>	<u>86,211,646</u>	<u>87,976,294</u>	<u>1,764,648</u>
EXPENDITURES				
Current:				
Administration	2,283,344	3,065,418	3,034,928	(30,490)
District Support Services	1,314,625	1,664,890	1,711,050	46,160
Regular Instruction	31,842,743	42,156,012	42,655,044	499,032
Vocational Education Instruction	761,220	1,010,257	1,070,852	60,595
Special Education Instruction	13,789,108	16,641,500	17,713,821	1,072,321
Instructional Support Services	4,385,463	5,317,777	4,660,426	(657,351)
Pupil Support Services	5,307,105	6,090,501	5,949,454	(141,047)
Sites and Buildings	6,325,000	7,235,857	7,030,461	(205,396)
Fiscal and Other Fixed Cost Programs	15,116,220	764,709	228,524	(536,185)
Capital Outlay	3,161,618	2,934,498	4,295,790	1,361,292
Total Expenditures	<u>84,286,446</u>	<u>86,881,419</u>	<u>88,350,350</u>	<u>1,468,931</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(191,367)	(669,773)	(374,056)	295,717
OTHER FINANCING SOURCES				
Proceeds from Capital Lease	-	-	1,242,851	1,242,851
Judgments for School Districts	-	-	113	113
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>1,242,964</u>	<u>1,242,964</u>
Net Change in Fund Balances	<u>\$ (191,367)</u>	<u>\$ (669,773)</u>	868,908	<u>\$ 1,538,681</u>
FUND BALANCE				
Beginning of Year			<u>15,304,045</u>	
End of Year			<u>\$ 16,172,953</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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Earnings on Investments	\$ 200	\$ 1,000	\$ 5,074	\$ 4,074
Other - Primarily Meal Sales	1,533,500	1,535,000	1,623,710	88,710
State Sources	184,000	184,000	201,313	17,313
Federal Sources	2,069,000	2,181,000	2,383,570	202,570
Total Revenues	<u>3,786,700</u>	<u>3,901,000</u>	<u>4,213,667</u>	<u>312,667</u>
EXPENDITURES				
Current				
Food Service	3,779,841	3,881,930	3,956,125	74,195
Capital Outlay	85,000	100,000	112,253	12,253
Total Expenditures	<u>3,864,841</u>	<u>3,981,930</u>	<u>4,068,378</u>	<u>86,448</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (78,141)</u>	<u>\$ (80,930)</u>	145,289	<u>\$ 226,219</u>
FUND BALANCE				
Beginning of Year			<u>1,067,564</u>	
End of Year			<u>\$ 1,212,853</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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 840,584	\$ 839,585	\$ 844,015	\$ 4,430
Earnings on Investments	500	500	7,290	6,790
Other - Primarily Tuition and Fees	2,890,848	3,622,723	3,472,357	(150,366)
State Sources	1,369,341	1,472,322	1,481,063	8,741
Federal Sources	148,000	265,698	277,563	11,865
Total Revenues	<u>5,249,273</u>	<u>6,200,828</u>	<u>6,082,288</u>	<u>(118,540)</u>
EXPENDITURES				
Current				
Community Service	5,462,975	5,707,318	5,867,968	160,650
Capital Outlay	99,450	99,450	27,095	(72,355)
Total Expenditures	<u>5,562,425</u>	<u>5,806,768</u>	<u>5,895,063</u>	<u>88,295</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (313,152)</u>	<u>\$ 394,060</u>	187,225	<u>\$ (206,835)</u>
FUND BALANCE				
Beginning of Year			<u>1,417,246</u>	
End of Year			<u>\$ 1,604,471</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 77
 STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2016
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	Governmental Activities - Internal Service Funds	
	2016	2015
ASSETS		
Current Assets		
Cash and Investments	\$ 338,837	\$ 344,859
Total Assets	338,837	344,859
LIABILITIES		
Current Liabilities		
Claims Payable for Health and Dental Benefits	314,822	296,675
Total Current Liabilities	314,822	296,675
NET POSITION		
Unrestricted	24,015	48,184
Total Net Position	\$ 24,015	\$ 48,184

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, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	Governmental Activities - Internal Service Funds	
	2016	2015
OPERATING REVENUES		
Charges for Services	\$ 561,454	\$ 553,376
Total Operating Revenues	561,454	553,376
OPERATING EXPENSES		
Dental Insurance Claim Payments	531,868	480,975
General Administration Fees	53,794	52,030
Total Operating Expenses	585,662	533,005
Operating Income (Loss)	(24,208)	20,371
NONOPERATING INCOME		
Earnings on Investments	39	22
Change in Net Position	(24,169)	20,393
Total Net Position - Beginning	48,184	27,791
Total Net Position - Ending	\$ 24,015	\$ 48,184

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEARS ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	Governmental Activities - Internal Service Funds	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 561,454	\$ 553,376
Payments for Administrative Costs	(53,794)	(52,030)
Payments for Medical Fees and Insurance Claims	(513,721)	(476,469)
Net Cash Provided (Used) by Operating Activities	(6,061)	24,877
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	39	22
Net Increase (Decrease) in Cash and Cash Equivalents	(6,022)	24,899
Cash and Cash Equivalents - Beginning	344,859	319,960
Cash and Cash Equivalents - Ending	\$ 338,837	\$ 344,859
Displayed on Statement of Net Position as:		
Cash and Investments	\$ 338,837	\$ 344,859
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (24,208)	\$ 20,371
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Increase in Claims Payable	18,147	4,506
Total Adjustments	18,147	4,506
Net Cash Provided (Used) by Operating Activities	\$ (6,061)	\$ 24,877

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

	<u>Private- Purpose Trust</u>	<u>OPEB Benefit Trust</u>	<u>Agency Funds</u>
ASSETS			
Cash and Investments	\$ 95,333	\$ 13,091,735	\$ 890,253
Accounts Receivable	-	61	21,334
Total Assets	<u>95,333</u>	<u>13,091,796</u>	<u>\$ 911,587</u>
LIABILITIES			
Salaries and Payroll Deductions Payable	-	-	\$ 1,862
Accounts Payable and Due to Other Governments	-	-	907,824
Unearned Revenue	-	-	1,901
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 911,587</u>
NET POSITION			
Restricted for Payment of OPEB Benefits	-	13,091,796	
Restricted for Scholarships and Other Purposes	95,333	-	
Total Net Position	<u>\$ 95,333</u>	<u>\$ 13,091,796</u>	

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016**

	<u>Private- Purpose Trust</u>	<u>OPEB Benefit Trust</u>
ADDITIONS		
Gifts and Donations	\$ 13,172	\$ -
Earnings on Investments	-	518,527
Total Additions	<u>13,172</u>	<u>518,527</u>
DEDUCTIONS		
Scholarships Awarded	29,265	-
Retirement Benefits	-	800,448
Administrative Costs	-	59,894
Total Deductions	<u>29,265</u>	<u>860,342</u>
Change in Net Position	(16,093)	(341,815)
Net Position - Beginning of Year	111,426	13,433,611
Net Position - End of Year	<u>\$ 95,333</u>	<u>\$ 13,091,796</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, 2016**

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, 2016**

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 non-operating 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 non-operating revenues and expenses.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016**

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, 2016**

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, 2016, 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, 2016**

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, 2016 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, 2016**

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, 2016, 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 are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

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

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, 2016**

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, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Accrued Employee Benefits (Continued)

Severance and Wellness Benefits Payable (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 2016 were \$451,642. A liability for severance and wellness benefits payable totaling \$4,759,340 is recorded in the Statement of Net Position.

Q. Other Post Employment Benefits Payable

Under the terms of employee contracts, when nonaffiliated category III and IV, principals, teachers hired before July 1, 2007, and the Superintendent retire and qualify for severance the District must provide single coverage health insurance for 10 years or until Medicare eligibility. Teachers hired after July 1, 2007 receive an annual district contribution of \$1,385 to an HRA, which remains a district asset until the teacher becomes vested. For maintenance and custodial personnel and secretaries that retire and have fifteen years of continuous service within the District and are at the least age 55 the District contributes to the single insurance coverage in the amount in effect at the time of their retirement until the retiree becomes eligible for Medicare. Also under the provisions of the various employee and union contracts, the District provides dental care coverage until age 65 if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. Premiums are funded on a combination of pay-as-you-go and use of available OPEB Trust funds. This amount was actuarially determined, in accordance with GASB 45, at June 30, 2016.

R. 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 Affairs 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. 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.

T. 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. The Community Service Fund also reported unearned revenue for fees collected in advance of fiscal year 2017. In the Food Service Fund, fees collected for student meals not used are classified as unearned.

U. 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.

V. Net Position

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

W. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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.

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, 2016 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, 2016**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At June 30, 2016, the District had the following investments:

Investments Held at Amortized Cost

	Amortized Cost
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 15,305,723
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	5,686,800
Minnesota School District Liquid Asset Fund Term	6,000,000
US Treasury Securities	117,173
Total	\$ 27,109,696

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC). The fair value of the position in the pool is the same as the value of the pool shares.

Credit Risk – The MSDLAF+ and MSDMAX pools and MSDLAF Term are rated AAAm by Standard & Poor’s.

The Minnesota School District Asset Fund Term matures on December 23, 2016 and has an interest rate of .83%.

Investments Held at Fair Value

	Fair Value
US Treasury Securities	\$ 8,088,047
Federal Agency Bonds	26,567,062
Mutual Funds - Equity	3,923,771
Mutual Funds - Fixed Income	9,140,155
First Amer Govt Oblig Fund CI Z Money Market	27,809
Total	\$ 47,746,844

Credit Risk related to these securities is as follows:

Type	Credit Rating
US Treasury Securities	NR
Federal Agency Bonds	AA+
Mutual Funds - Equity	NR
Mutual Funds - Fixed Income	NR
First Amer Govt Oblig Fund CI Z Money Market	AAAm

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk.

The District has a formal investment policy that addresses permissible investments, portfolio diversification, and instrument maturities. Investment maturities are scheduled to coincide with projected school district cash flow needs. Within these parameters, it is the District's policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses arising from rising interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate risk fluctuations is provided by the distribution of the District's investments by maturity. As of June 30, 2016, the District's investments have the following maturities:

Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 15,305,723	\$15,305,723	\$ -	\$ -
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	5,686,800	5,686,800	-	-
Minnesota School District Liquid Asset Fund Term	6,000,000	6,000,000		
US Treasury Securities	8,205,220	117,173	5,076,150	3,011,897
Federal Agency Bonds	26,567,062	13,809,547	-	12,757,515
Mutual Funds - Equity	3,923,771	3,923,771	-	-
Mutual Funds - Fixed Income	9,140,155	9,140,155	-	-
First Amer Govt Oblig Fund Cl Z Money Market	27,809	27,809	-	-
Total	<u>\$ 74,856,540</u>	<u>\$ 54,010,978</u>	<u>\$ 5,076,150</u>	<u>\$ 15,769,412</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, 2016, 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:

Type	Amount	Percentage
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 15,305,723	20.45%
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	5,686,800	7.60%
Minnesota School District Liquid Asset Fund Term	6,000,000	8.02%
FNMA Notes	21,836,094	29.17%
US Treasury Securities	8,205,220	10.96%

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

Deposits	\$ 9,322,319
Cash on Hand	1,190
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	15,305,723
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	5,686,800
Minnesota School District Liquid Asset Fund Term	6,000,000
US Treasury Securities	8,205,220
Federal Agency Bonds	26,567,062
Mutual Funds - Equity	3,923,771
Mutual Funds - Fixed Income	9,140,155
First Amer Govt Oblig Fund Cl Z Money Market	<u>27,809</u>
Total	<u><u>\$ 84,180,049</u></u>

These amounts are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 49,082,597
Cash and Investments Held by Trustee - Statement of Net Position	21,020,131
Cash and Investments - Statement of Fiduciary Net Position	<u>14,077,321</u>
Total Cash and Investments	<u><u>\$ 84,180,049</u></u>

D. Fair Value Measurements

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

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

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

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Fair Value Measurements (Continued)

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Treasury Securities	\$ -	\$ 8,088,047	\$ -	\$ 8,088,047
Federal Agency Bonds	-	26,567,062	-	26,567,062
Mutual Funds	-	13,091,735	-	13,091,735
Investments Measured at Net Asset Value (NAV)				<u>20,992,523</u>
Total				<u>\$ 68,739,367</u>

The MSDLAF+ is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The Pool elects to measure its investments at amortized cost in accordance with accounting statements issued by the Government Accounting Standards Board.

The District reports its investments in the Pool at the NAV per share, the fair value established by the Pool.

The District’s investment in the Pool is included in two share classes, as follows:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 15,305,723	\$ -
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	5,686,800	-

The Liquid 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 4,120,830	\$ -	\$ -	\$ 4,120,830
Construction in Progress	13,272,707	35,636,527	(8,100,991)	40,808,243
Total Capital Assets, Not Being Depreciated	17,393,537	35,636,527	(8,100,991)	44,929,073
Capital Assets, Being Depreciated				
Land Improvements	6,004,738	73,269	-	6,078,007
Buildings and Improvements	84,123,855	7,442,912	-	91,566,767
Equipment	6,571,906	1,096,370	(22,550)	7,645,726
Total Capital Assets, Being Depreciated	96,700,499	8,612,551	(22,550)	105,290,500
Accumulated Depreciation for				
Land Improvements	(1,987,955)	(278,373)	-	(2,266,328)
Buildings and Improvements	(38,250,443)	(2,141,700)	-	(40,392,143)
Equipment	(3,843,831)	(444,799)	22,550	(4,266,080)
Total Accumulated Depreciation	(44,082,229)	(2,864,872)	22,550	(46,924,551)
Total Capital Assets, Being Depreciated, Net	52,618,270	5,747,679	-	58,365,949
Governmental Activities Capital Assets, Net	<u>\$ 70,011,807</u>	<u>\$ 41,384,206</u>	<u>\$ (8,100,991)</u>	<u>\$ 103,295,022</u>

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

Governmental Activities	
Administration	\$ 927
District Support Services	4,371
Regular Instruction	2,594,345
Vocational Education Instruction	1,117
Special Education Instruction	4,804
Instructional Support Services	59,171
Pupil Support Services	43,669
Sites and Buildings	66,568
Food Service	83,867
Community Service	6,033
Total Depreciation Expense, Governmental Activities	<u>\$ 2,864,872</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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.

Bond Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
8/7/2008	3.00% - 4.70%	\$ 33,350,000	2/1/2029	\$ 1,730,000	\$ 24,165,000
8/27/2009	1.75% - 5.40%	11,960,000	2/1/2024	710,000	6,340,000
9/15/2009	2.00% - 3.50%	4,060,000	2/1/2021	410,000	2,215,000
2/19/2014	4.00%	69,500,000	2/1/2034	1,980,000	62,225,000
1/22/2015	0.65% - 2.50%	3,680,000	2/1/2026	335,000	3,680,000
11/5/2015	2.00%-2.75%	6,140,000	2/1/2029	-	6,140,000
3/29/2016	2.00%	9,700,000	2/1/2027	-	9,700,000
6/30/2016	1.30%-2.15%	5,040,000	2/1/2024	-	5,040,000
Total General Obligation Bonds				5,165,000	119,505,000
Bond Premium				269,040	4,325,879
Bond Discounts				(8,296)	(62,911)
Capital Leases Payable				563,082	2,220,378
Net Pension Liability				-	58,338,679
Severance and Wellness Benefits Payable				100,000	4,759,340
Compensated Absences Payable				491,938	576,884
				<u>\$ 6,580,764</u>	<u>\$ 189,663,249</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

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

<u>Year Ending June 30,</u>	General Obligation Bonds Payable	
	Principal	Interest
2017	\$ 5,165,000	\$ 4,412,012
2018	10,280,000	4,234,520
2019	21,115,000	3,775,996
2020	6,090,000	2,892,210
2021	6,350,000	2,683,225
2022 - 2026	28,305,000	10,559,225
2027 - 2031	27,200,000	5,998,763
2032 - 2034	15,000,000	1,200,000
Total	\$ 119,505,000	\$ 35,755,951

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 will be 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

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. The refunding resulted in an economic savings of \$743,658 for the District, with a present value savings of \$598,073. Assets of the Debt Service fund, together with scheduled ad valorem tax levies, are dedicated to retire these bonds.

General Obligation Crossover Refunding Bonds, Series 2016A

On March 29, 2016 the District issued \$9,700,000 of General Obligation Crossover Refunding Bonds, Series 2016A. The proceeds of the issue will be used to refund the General Obligation School Building Bonds, Series 2008A, which are callable in February 2019. The new issue was issued at a premium of \$325,494. The refunding resulted in an economic savings of \$1,148,351 for the District, with a present value savings of \$1,010,712. 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. The refunding resulted in an economic savings of \$424,953 for the District, with a present value savings of \$384,350. Assets of the Debt Service fund, together with scheduled ad valorem tax levies, are dedicated to retire these bonds.

Capital Lease Payable

In August 2004, the District issued a capital lease for a classroom addition at Kennedy Elementary. The lease is due in semi-annual installments through August 15, 2016.

In February 2005, the District issued a capital lease for a classroom addition at Eagle Lake Elementary. The lease is due in semi-annual installments through February 23, 2017.

**MANKATO PUBLIC SCHOOLS
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NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Capital Lease Payable (Continued)

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 \$550,299, respectively.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2016:

<u>Year Ending June 30,</u>	
2017	\$ 626,734
2018	547,384
2019	484,799
2020	106,404
2021	106,404
2022 - 2026	532,020
2027 - 2028	<u>168,474</u>
Total Minimum Lease Payments	2,572,219
Less: Amounts Representing Interest	<u>351,841</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 2,220,378</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, 2016, unpaid vacation totaling \$576,884 is recorded in the Statement of Net Position. Vacation benefits have been paid by the General and Special Revenue Funds.

**MANKATO PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
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NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

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

	June 30 2015	Net Additions	Retirements	June 30, 2016
Bonds Payable	\$ 108,855,000	\$ 20,880,000	\$ 10,230,000	\$ 119,505,000
Bond Premium	4,169,300	401,180	244,601	4,325,879
Bond Discounts	(71,207)	-	(8,296)	(62,911)
Capital Leases Payable	1,186,472	1,242,851	208,945	2,220,378
Severance and Wellness Benefits Payable	4,969,299	241,683	451,642	4,759,340
Compensated Absences Payable	504,470	652,410	579,996	576,884
Total	<u>\$ 119,613,334</u>	<u>\$ 23,418,124</u>	<u>\$ 11,706,888</u>	<u>\$ 131,324,570</u>

NOTE 5 OPERATING LEASES

The District has lease agreements to lease facilities and equipment. Rent expense under annual operating leases for the year ending June 30, 2016 was \$780,101. Some of these operating leases are funded through the lease levy.

Minimum rental commitments on leases in effect at June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 664,794
2018	627,863
2019	490,995
2020	312,255
Total	<u>\$ 2,095,907</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.

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NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

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

A. Restricted for Staff Development

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

B. Restricted for Health and Safety

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

C. Restricted for 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.

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.

E. Restricted for Learning and Development

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

F. Restricted for Teacher Development and Evaluation

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

G. 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.

H. Restricted for Community Education Programs

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

I. Restricted for Early Childhood and Family Education Programs

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

**MANKATO PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

J. 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.

K. 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.

L. 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.

M. Restricted for Other Purposes

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

N. 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.

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

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA)

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

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

B. Benefits Provided

PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

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

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

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

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.

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 Benefits

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 of Service 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 Services Years are July 1, 2006 or After	1.9% per Year

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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

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

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

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

C. Contributions

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

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 calendar years 2015 and 2016. In calendar years 2015 and 2016, 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, 2016, were \$955,191. 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 each fiscal year were:

	Ending June 30, 2015		Ending June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	11.0 %	11.5 %	11.0 %	11.5 %
Coordinated	7.5	7.5	7.5	7.5

The District's contributions to TRA for the plan's fiscal year ended June 30, 2016, were \$3,105,175. 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, 2016, the District reported a liability of \$10,997,305 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.2122%. The District's proportionate share at June 30, 2014 was 0.2335%.

For the year ended June 30, 2016, the District recognized pension expense of \$897,890 for its proportionate share of GERF's pension expense.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

At June 30, 2016, 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	\$ 101,987	\$ 554,452
Changes in Actuarial Assumptions	684,874	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	978,964
Changes in Proportion and Differences Between District Contributions and Proportionate Share Contributions	-	864,334
District Contributions Subsequent to the Measurement Date	955,191	-
Total	<u>\$ 1,742,052</u>	<u>\$ 2,397,750</u>

Of the resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$955,191 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expenses Amount
2017	\$ (492,575)
2018	(492,575)
2019	(886,005)
2020	260,266

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of \$47,341,374 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2015, 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 0.7653% at the end of the measurement period and 0.8074% for the beginning of the period.

**MANKATO PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

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:

TRA Pension Costs			<u>Amount</u>
<u>Description</u>			
District's Proportionate Share of the TRA Net Pension Liability		\$	47,341,374
State's Proportionate Share of TRA's Net Pension Liability Associated with the District			5,807,065

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer.

For the year ended June 30, 2016, the District recognized pension expense of \$3,092,681. It also recognized \$1,026,614 as pension expense for the support provided by direct aid.

At June 30, 2016, 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:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 2,425,764	\$ -
Changes in Actuarial Assumptions	3,639,295	-
Net Difference Between Projected and Actual Investment Earnings	-	3,620,770
Changes in Proportion and Differences Between Contributions Made and the District's Proportionate Share of Contributions	550,113	855,123
District Contributions Subsequent to the Measurement Date	3,105,175	-
Total	<u>\$ 9,720,347</u>	<u>\$ 4,475,893</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

Of the resources related to pensions resulting from District contributions to TRA subsequent to the measurement date, \$3,105,175 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expenses Amount</u>
2017	\$ (259,654)
2018	(259,654)
2019	(259,654)
2020	2,349,643
2021	568,598

E. Merger of Duluth Teacher's Retirement Fund Association (DTRFA)

Legislation enacted in 2014 merged the Duluth Teachers Retirement Fund Association (DTRFA) with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	<u>6/30/14 CAFR</u>	<u>Restated</u>
Total Pension Liability (A)	\$ 24,901,612,000	\$ 25,229,564,000
Plan Fiduciary Net Position (B)	20,293,684,000	20,519,756,000
Net Pension Liability (A - B)	<u>\$ 4,607,928,000</u>	<u>\$ 4,709,808,000</u>

F. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

<u>Assumptions</u>	<u>GERF</u>	<u>TRA</u>
Inflation	2.75% per Year	3.00%
Active Member Payroll Growth	3.50% per Year	3.5 - 12.0%*
Investment Rate of Return	7.90%	8.00%

*Based on Years of Service

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

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

F. Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the actuarial experience study for the period of July 1, 2004, to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The following changes in actuarial assumptions for GERP occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by .25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

There was a change in actuarial assumptions that affected the measurement of the total liability for TRA since the prior measurement date. Postretirement benefit adjustments are now assumed to increase from 2.0% annually to 2.5% annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

The long-term expected rate of return on pension plan investments is 7.9% for GERP and 8.00% 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>	

**MANKATO PUBLIC SCHOOLS
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JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.00% for TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

H. Pension Liability Sensitivity

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
District's Proportionate Share of the GERF Net Pension Liability	\$ 17,291,673	\$ 10,997,305	\$ 5,799,125
<u>TRA Discount Rate</u>	7.00%	8.00%	9.00%
District's Proportionate Share of the TRA Net Pension Liability	\$ 72,059,699	\$ 47,341,374	\$ 26,713,217

I. 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.

**MANKATO PUBLIC SCHOOLS
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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, 2016, 2015, and 2014 are \$692,907, \$607,778, and \$566,793, respectively. The related employee contributions were \$1,574,951, \$1,414,785, and \$1,315,006, for the years ended June 30, 2016, 2015, and 2014, respectively.

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 post-retirement life insurance to eligible employees and their spouses through the District's insurance and self-insured dental plans. There are 737 active participants and 139 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

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 2016, total contributions to the plan were \$468,550.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 OTHER POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

C. 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	\$ 1,203,810
Interest on Net OPEB Obligation	(322,215)
Adjustment to Annual Required Contribution	410,698
Annual OPEB Cost (Expense)	<u>1,292,293</u>
Contributions Made	(468,550)
Decrease in Net OPEB Asset	<u>823,743</u>
Net OPEB Asset - Beginning of Year	<u>(5,844,238)</u>
Net OPEB Asset - End of Year	<u>\$ (5,020,495)</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB asset for 2016, and the two preceding years is:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2016	\$ 1,292,293	36.3%	\$ (5,020,495)
6/30/2015	1,275,242	28.1%	(5,844,238)
6/30/2014	1,191,193	25.4%	(6,760,592)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$4,054,860. The annual payroll for active employees covered by the plan in the actuarial valuation was \$53,151,668 for a ratio of UAAL to covered payroll of 7.6%.

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, 2016**

NOTE 9 OTHER POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

E. 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, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.25% 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 7.5%, reduced by decrements to an ultimate rate of 5% after eight years. The UAAL is being amortized as a level dollar amount over 30 years. The remaining amortization period at June 30, 2016 does not exceed 30 years.

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	\$ 86,881,419	\$ 88,350,350	\$ 1,468,931
Special Revenue Funds			
Food Service Fund	3,981,930	4,068,378	86,448
Community Service Fund	5,806,768	5,895,063	88,295

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 \$615,685. 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 \$585,662 for the year ended June 30, 2016.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 SELF-INSURED DENTAL PLAN (CONTINUED)

The liability for unpaid claims included in the Internal Service Fund as claims payable for 2016 and the preceding year were:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Beginning of Year Liability - July 1	\$ 296,675	\$ 292,169
Incurred Claims	531,868	480,975
Claims Payments	<u>(513,721)</u>	<u>(476,469)</u>
End of Year Liability - June 30	<u>\$ 314,822</u>	<u>\$ 296,675</u>

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, 2016 the District had entered in various construction contracts for the construction and betterment of school facilities. Total remaining commitments under these contracts were \$12,435,140.

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**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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%
7/1/2010	11,976,954	15,956,270	3,979,316	75.1%	42,078,300	9.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Required Contribution	Employer Contribution	Percentage Contributed
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
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST TWO FISCAL YEARS**

Fiscal Year	<u>2016</u>	<u>2015</u>
Measurement Date	June 30, 2015	June 30, 2014
PERA		
District's Proportion of the Net Pension Liability (Asset)	0.212%	0.234%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 10,997,305	\$ 10,968,660
District's Covered-Employee Payroll	\$ 12,455,641	\$ 12,254,986
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	88.29%	89.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%	78.70%
TRA		
District's Proportion of the Net Pension Liability (Asset)	0.765%	0.807%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 47,341,374	\$ 37,204,411
State's Proportionate Share of the Net Pension Liability Associated with District	<u>5,807,065</u>	<u>2,617,282</u>
Total	\$ 53,148,439	\$ 39,821,693
District's Covered-Employee Payroll	\$ 38,844,387	\$ 36,857,686
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	121.87%	100.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.80%	81.50%

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

Schedule of District Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA			
Contractually Required Contribution	\$ 955,191	\$ 920,485	\$ 888,582
Contributions in Relation to the Contractually Required Contribution	<u>(955,191)</u>	<u>(920,485)</u>	<u>(888,582)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 12,736,718	\$ 12,455,641	\$ 12,254,986
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.39%	7.25%
TRA			
Contractually Required Contribution	\$ 3,105,175	\$ 2,941,663	\$ 2,580,038
Contributions in Relation to the Contractually Required Contribution	<u>(3,105,175)</u>	<u>(2,941,663)</u>	<u>(2,580,038)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 41,396,320	\$ 39,233,185	\$ 36,857,686
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.00%

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SUPPLEMENTARY INFORMATION

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF CHANGES IN FUND EQUITIES
YEAR ENDED JUNE 30, 2016**

	Fund Equities June 30, 2015	Revenues	Expenditures	Other Financing Sources (Uses)	Transfers	Fund Equities June 30, 2016
GOVERNMENTAL FUNDS						
General Fund						
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 11,605	\$ 11,605
Restricted for Staff Development	253,079	1,051,614	905,647	-	-	399,046
Restricted for Health and Safety	(582,833)	756,125	683,066	-	-	(509,774)
Restricted for Deferred Maintenance	262,335	555,086	762,696	-	-	54,725
Restricted for Operating Capital	2,152,323	3,145,934	2,929,683	-	-	2,368,574
Restricted for Learning and Development	1,099,327	1,976,093	2,061,916	-	-	1,013,504
Restricted for Gifted and Talented	-	147,695	243,173	-	95,478	-
Restricted for Teacher Development and Evaluation	148,920	-	34,794	-	-	114,126
Restricted for Basic Skills	685,727	3,863,560	4,094,707	-	-	454,580
Restricted for Career and Tech. Programs	-	202,704	758,819	-	556,115	-
Restricted for Safe Schools - Crime	-	311,950	311,950	-	-	-
Assigned for Separation/Retirement Benefits	690,000	-	-	-	-	690,000
Unassigned	10,595,167	75,965,533	75,563,899	1,242,964	(663,198)	11,576,567
Total General Fund	15,304,045	87,976,294	88,350,350	1,242,964	-	16,172,953
Food Service Fund						
Nonspendable	42,876	-	-	-	44,818	87,694
Restricted for Food Service	1,024,688	4,213,667	4,068,378	-	(44,818)	1,125,159
Total Food Service Fund	1,067,564	4,213,667	4,068,378	-	-	1,212,853
Community Service Fund						
Nonspendable	-	-	-	-	28,681	28,681
Restricted for Community Education	853,867	3,533,095	3,648,905	-	(28,681)	709,376
Restricted for E.C.F.E.	410,080	561,864	360,079	-	-	611,865
Restricted for School Readiness	107,421	525,187	445,256	-	-	187,352
Restricted for Adult Basic Education	45,878	1,128,080	1,106,762	-	-	67,196
Restricted for Community Service	-	334,062	334,061	-	-	1
Total Community Service Fund	1,417,246	6,082,288	5,895,063	-	-	1,604,471
Capital Projects Fund						
Nonspendable	57,397	-	-	-	(57,397)	-
Restricted for Capital Projects	54,250,618	158,527	35,485,270	-	57,397	18,981,272
Total Capital Projects Fund	54,308,015	158,527	35,485,270	-	-	18,981,272
Debt Service Fund						
Restricted for Bond Refundings	3,675,563	129,281	306,566	12,641,180	-	16,139,458
Restricted for Debt Service	3,207,844	7,236,050	9,947,109	-	-	496,785
Total Debt Service Fund	6,883,407	7,365,331	10,253,675	12,641,180	-	16,636,243
OPEB Debt Service Fund						
Restricted for Bond Refundings	-	22,552	72,555	5,040,000	-	4,989,997
Restricted for OPEB Debt Service	341,210	1,005,749	1,023,027	-	-	323,932
Total OPEB Debt Service Fund	341,210	1,028,301	1,095,582	5,040,000	-	5,313,929
TOTAL GOVERNMENTAL FUNDS	79,321,487	106,824,408	145,148,318	18,924,144	-	59,921,721
FIDUCIARY FUNDS						
Trust Fund						
Restricted for Scholarships and Other Purposes	111,426	13,172	29,265	-	-	95,333
Total Trust Fund	111,426	13,172	29,265	-	-	95,333
OPEB Trust Fund						
Restricted for Payment of OPEB Benefits	13,433,611	518,527	860,342	-	-	13,091,796
Total OPEB Trust Fund	13,433,611	518,527	860,342	-	-	13,091,796
TOTAL FIDUCIARY FUNDS	13,545,037	531,699	889,607	-	-	13,187,129
PROPRIETARY FUNDS						
Internal Service Fund						
Unrestricted	48,184	561,493	585,662	-	-	24,015
Total Internal Service Fund	48,184	561,493	585,662	-	-	24,015
TOTAL PROPRIETARY FUNDS	48,184	561,493	585,662	-	-	24,015
GRAND TOTAL	\$ 92,914,708	\$ 107,917,600	\$ 146,623,587	\$ 18,924,144	\$ -	\$ 73,132,865

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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, 2016**

Grantor/Program	CFDA Number	Agency or Passthrough Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through Minnesota Department of Education			
Non-Cash Assistance (Commodities):			
National School Lunch Program	a 10.555	1-077-000	\$ 256,779
Total Non-Cash Assistance			\$ 256,779
Cash Assistance:			
School Breakfast Program	a 10.553	1-077-000	336,115
National School Lunch Program	a 10.555	1-077-000	1,499,112
National School Lunch Program - Commodity Cash Rebate	a 10.555	1-077-000	50,366
After School Snack	a 10.555	1-077-000	6,928
Special Milk Program for Children	a 10.556	1-077-000	2,389
Summer Food Service Program for Children	a 10.559	1-077-000	231,881
Total Cash Assistance			2,126,791
Total U.S. Department of Agriculture			2,383,570
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Adult Basic Education State Grant Program	d 84.002	**	88,696
ABE EL - Civics Competitive Allocation	d 84.002	**	49,950
Title I, Part A - Grants to Local Educational Agencies	84.010	**	949,198
Special Education Grants to States	b 84.027	**	1,634,642
Special Education Preschool Grants	b 84.173	**	44,651
Special Education Grants for Infants and Families with Disabilities	c 84.181	**	57,774
Title II, Part A - Supporting Effective Instruction	84.367	**	226,125
Title III, Part A - English Language Acquisition Grants	84.365	**	55,423
Race to the Top - Early Learning Challenge	84.412	**	32,000
Total Passed Through Minnesota Department of Education			3,138,459
Pass-Through South Central Service Cooperative			
IDEA Part C - Regional IEIC Grant for Children ages 0-2	c 84.181	**	2,100
Career and Technical Education - Basic Grants to States	84.048	**	30,000
Total Passed Through South Central Service Cooperative			32,100
Pass-Through South Central College			
Career and Technical Education - Basic Grants to States	84.048	**	22,782
Total Passed Through South Central College			22,782
Total U.S. Department of Education			3,193,341
U.S. Department of Labor			
Pass-Through South Central Workforce Council			
Incentive Grants - WIA Section 503	17.267	**	54,112
Total U.S. Department of Labor			54,112
Total Federal Financial Assistance Expended			\$ 5,631,023

- a Programs are Clustered - Child Nutrition Cluster Total Expenditures = \$2,383,570
b Programs are Clustered - Special Education Cluster Total Expenditures = \$1,679,293
c Programs are Clustered - Early Intervention Cluster Total Expenditures = \$59,874
d Programs are Clustered - Adult Basic Education Cluster Total Expenditures = \$138,646
** Not available

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, 2016**

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 either the cost principles contained OMB Circular A-87, Cost Principles for State, Local and Indian Tribe Governments or 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, 2016, and the related notes to the financial statements, which collectively comprise Independent School District No. 77's basic financial statements, and have issued our report thereon dated November 11, 2016.

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, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, we identified a deficiency in internal control that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 77’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent School District No. 77’s Response to Finding

Independent School District No. 77’s response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 77’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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
November 11, 2016



**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, 2016.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2016-003 to be a significant deficiency.

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

Board of Education
Independent School District No. 77

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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Austin, Minnesota
November 11, 2016

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, 2016, and the related notes to the financial statements and have issued our report thereon dated November 11, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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 Subdivisions*. 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
November 11, 2016

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section I – Summary of Independent Auditors’ Results

Financial Statements

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

Federal Awards

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

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173 84.010	Special Education Cluster Title I, Part A – Grants to Local Educational Agencies
10.553, 10.555, 10.556, 10.559	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, 2016**

Section II – Findings Related to the General Purpose Financial Statements

FINDING: 2016-001 CONTROLS OVER PAYROLL PROCESSING

Condition: Controls established by the District over the payroll reporting process are ineffective. One of forty payroll disbursements tested were calculated and paid incorrectly for the pay period selected for testing.

Criteria: The District should have controls in place to prevent or detect a material error in the annual financial statements.

Effect: The potential exists that an error could occur in the financial statements and not be prevented or detected by the District's internal controls.

Cause: The District's controls are not adequate to ensure all payroll transactions are appropriate and properly supported.

Recommendation: We recommend that all pay rates are documented and approved by the Board of Education annually. All payroll calculations should be well documented, and reviewed and approved prior to processing payroll.

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 the recommendation.

Official Responsible for Ensuring CAP:

Jerry Kolander, Director of Business Affairs, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is November 30, 2016.

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 QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section III – Federal Awards Findings and Questioned Costs

FINDING: 2016-002 **CHILD NUTRITION CLUSTER – CFDA# 10.553, 10.555, 10.556, & 10.559
ALL GRANT YEARS
U.S. DEPARTMENT OF AGRICULTURE
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
CONTROLS OVER MONTHLY REPORTING**

Condition: Documentation of an independent management review and approval of meal counts submitted to Minnesota Department of Education was not maintained.

Criteria: 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions for reporting requirements. The District should have internal controls designed to ensure compliance with those provisions.

Questioned Costs: None

Context: Independent management review and approval was not documented for any of the three months of reports tested.

Effect: The potential exists that the District could report an improper number of meals served by category or in total, and that the error would not be prevented, or detected and corrected, by the District's internal control.

Cause: Not known.

Recommendation: We recommend the District maintain documentation of an independent management review and approval of meal counts submitted to Minnesota Department of Education.

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 the recommendation above.

Official Responsible for Ensuring CAP:

Ron Schirmers, Director of Food Service, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is November 30, 2016.

Plan to Monitor Completion of CAP:

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDING: 2016-003 **TITLE I, PART A – CFDA# 84.010
ALL GRANT YEARS
U.S. DEPARTMENT OF AGRICULTURE
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
CONTROLS OVER TIME AND EFFORT REPORTING**

Condition: Thirty-four disbursements paid with Title I federal funds were selected for testing. Three months of Time Distribution Recordkeeping Certification forms for one employee were not timely reviewed Title I Program Director.

Criteria: 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions for reporting requirements. The District should have internal controls designed to ensure compliance with those provisions.

Questioned Costs: None

Context: Independent management review and approval was not documented timely for one of thirty-four employees tested.

Effect: The potential exists that unallowable costs could be included in the Federal program expenditures.

Cause: Not known.

Recommendation: We recommend that all time sheets, time certifications, personnel activity reports, and pay distribution reconciliations be reviewed by an appropriate federal programs supervisor and on a timely basis. All approval should be documented and maintained.

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 the recommendation above.

Official Responsible for Ensuring CAP:

Melanie Helling, Student Support Coordinator, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is November 30, 2016.

Plan to Monitor Completion of CAP:

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section IV – Minnesota Legal Compliance Findings

None noted.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

2015-001

Corrective action was taken in the current year.

2015-002

See current year finding 2016-002.

Reason for Finding's Recurrence: The District hired a Nutrition and Wellness Specialist at the beginning of fiscal year 2015. The procedures performed by the Nutrition and Wellness Specialist were not documented in the current year, resulting in the recurring finding.

2015-003

See current year finding 2016-003.

Reason for Finding's Recurrence: The Time Distribution Recordkeeping Certification forms that were not timely reviewed by Title I Program Director were from the summer months. The program has few year round employees, therefore, reviewed did not occur for these summer months for the year round employee.

2015-004

Corrective action was taken in the current year.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2016**

01 GENERAL FUND	Audit	UFARS	Difference	06 BUILDING CONSTRUCTION	Audit	UFARS	Difference
Total Revenues	\$ 87,976,407	\$ 87,976,404	\$ 3	Total Revenues	\$ 158,527	\$ 158,527	\$ -
Total Expenditures	\$ 88,350,350	\$ 88,350,347	\$ 3	Total Expenditures	\$ 35,485,270	\$ 35,485,271	\$ (1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	\$ 11,605	\$ 11,605	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	\$ 399,046	\$ 399,046	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 54,725	\$ 54,725	\$ -	409 Alternative Fac. Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (509,774)	\$ (509,774)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	464 Other Purposes	\$ 18,981,272	\$ 18,981,272	\$ -
408 Cooperative Rev.	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
414 Operating Debt	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -				
423 Certain Teacher Programs	\$ -	\$ -	\$ -	07 DEBT SERVICE			
424 Operating Capital	\$ 2,368,574	\$ 2,368,574	\$ -	Total Revenues	\$ 7,365,331	\$ 7,365,333	\$ (2)
426 \$25 Taconite	\$ -	\$ -	\$ -	Total Expenditures	\$ 10,253,675	\$ 10,253,675	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	<i>Restricted/Reserved:</i>			
428 Learning & Development	\$ 1,013,504	\$ 1,013,504	\$ -	425 Bond Refundings	\$ 16,139,458	\$ 16,139,459	\$ (1)
434 Area Learning Center	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	464 Other Purposes	\$ 496,785	\$ 496,784	\$ 1
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
438 Gifted & Talented	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
440 Teacher Develop. and Eval.	\$ 114,126	\$ 114,126	\$ -				
441 Basic Skills	\$ 454,580	\$ 454,580	\$ -	08 TRUST			
445 Career and Tech, Programs	\$ -	\$ -	\$ -	Total Revenues	\$ 13,172	\$ 13,172	\$ -
448 Achievement and Integration	\$ -	\$ -	\$ -	Total Expenditures	\$ 29,265	\$ 29,265	\$ -
449 Safe Schools Levy	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
450 Pre-Kindergarten	\$ -	\$ -	\$ -	422 Unassigned	\$ 95,333	\$ 95,333	\$ -
451 QZAB Payments	\$ -	\$ -	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	09 AGENCY			
453 Unfunded Sev & Reiremt Levy	\$ -	\$ -	\$ -	<i>Unassigned: Should Always Be -0-</i>			
464 Other Purposes	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
<i>Committed:</i>							
418 Committed for Severance	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
461 Committed	\$ -	\$ -	\$ -	Total Revenues	\$ 561,493	\$ 561,494	\$ (1)
<i>Assigned:</i>				Total Expenditures	\$ 585,662	\$ 585,662	\$ -
462 Assigned	\$ 690,000	\$ 690,000	\$ -	<i>Unassigned:</i>			
<i>Unassigned:</i>				422 Unassigned	\$ 24,015	\$ 24,015	\$ -
422 Unassigned	\$ 11,576,567	\$ 11,576,566	\$ 1				
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST			
Total Revenues	\$ 4,213,667	\$ 4,213,667	\$ -	Total Revenues	\$ -	\$ -	\$ -
Total Expenditures	\$ 4,068,378	\$ 4,068,378	\$ -	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable	\$ 87,694	\$ 87,694	\$ -	422 Unassigned	\$ -	\$ -	\$ -
<i>Restricted:</i>							
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -	45 OPEB IRREVOCABLE TRUST			
464 Other Purposes	\$ 1,125,159	\$ 1,125,159	\$ -	Total Revenues	\$ 518,527	\$ 518,527	\$ -
<i>Unassigned:</i>				Total Expenditures	\$ 860,342	\$ 860,342	\$ -
463 Unassigned	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
				422 Unassigned	\$ 13,091,796	\$ 13,091,795	\$ 1
04 COMMUNITY SERVICE							
Total Revenues	\$ 6,082,288	\$ 6,082,282	\$ 6	47 OPEB DEBT SERVICE			
Total Expenditures	\$ 5,895,063	\$ 5,895,060	\$ 3	Total Revenues	\$ 1,028,301	\$ 1,028,302	\$ (1)
<i>Nonspendable:</i>				Total Expenditures	\$ 1,095,582	\$ 1,095,582	\$ -
460 Nonspendable	\$ 28,681	\$ 28,681	\$ -	<i>Restricted:</i>			
<i>Restricted:</i>				425 Bond Refundings	\$ 4,989,997	\$ 4,989,997	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	464 Other Purposes	\$ 323,932	\$ 323,933	\$ (1)
431 Community Education	\$ 709,376	\$ 709,377	\$ (1)	<i>Unassigned:</i>			
432 E.C.F.E.	\$ 611,865	\$ 611,865	\$ -	463 Unassigned	\$ -	\$ -	\$ -
440 Teacher Develop. and Eval.	\$ -	\$ -	\$ -				
444 School Readiness	\$ 187,352	\$ 187,352	\$ -				
447 Adult Basic Education	\$ 67,196	\$ 67,196	\$ -				
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ 1	\$ -	\$ 1				
<i>Unassigned:</i>							
463 Unassigned	\$ -	\$ -	\$ -				

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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, 2016, 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

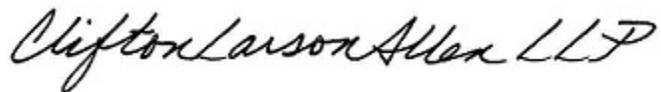
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 77 as of June, 30 2016, 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, 2016, 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
November 11, 2016

**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, 2016**

	Balance 6/30/2015	Receipts	Disbursements & Transfers	Balance 6/30/2016
WEST HIGH				
Academic Athletic	\$ 690	\$ 1,173	\$ 627	\$ 1,236
AVID 11/12	12	-	-	12
Knowledge Bowl	307	-	-	307
Band	1,879	45,562	45,811	1,630
Boys Cross Country	1,027	646	1,024	649
Boys Soccer	2,219	1,260	1,495	1,984
Boys Swimming and Dive	398	-	-	398
Choir	10,087	30,435	29,275	11,247
Distributive Education Club of America	6,699	2,503	3,480	5,722
Drama Fund	26,971	24,965	25,961	25,975
Fashions NY	948	-	-	948
Football Fund	5,690	21,347	22,517	4,520
French Language	750	103	853	-
German Language	943	44,475	31,986	13,432
Girls Tennis	430	-	119	311
Girls Gymnastics	9	1	-	10
Girls Soccer	8,307	1,420	1,000	8,727
Girls Swimming and Dive	1,436	677	121	1,992
History Club	-	945	945	-
Hockey Clinic	8,435	10,475	9,296	9,614
Interest	-	(283)	50	(333)
Key Club	1,368	2,917	3,873	412
Language Club	109	-	-	109
National Honor Society	850	1,656	857	1,649
Orchesis	6,695	2,963	1,471	8,187
Orchestra	2,451	14,739	15,783	1,407
OTAK Projects	31,345	26,308	39,228	18,425
Photo/Art Field Trips	90	1,699	934	855
Prom Fund	4,462	8,748	7,322	5,888
Hall of Fame	956	1,190	2,155	(9)
Senior Class	57	-	-	57
Senior Science	-	1,132	1,283	(151)
Student Council	4,253	3,969	3,031	5,191
Summer Athletic Camp - Boys	1,800	1,500	1,764	1,536
Summer Athletic Camp - Girls	3,133	10,530	9,273	4,390
Valley Fair Fund	99	1	-	100
Volleyball	1,227	4,326	5,995	(442)
Washington DC Trip	1	-	-	1
West Connection	18	-	-	18
Wrestling	78	7	78	7
Yell Club	9	-	-	9
Vex Robotics	-	14,908	11,946	2,962
Girls Track/Field	-	394	-	394
Girls Lacrosse	-	20	-	20
TOTAL WEST HIGH	<u>136,238</u>	<u>282,711</u>	<u>279,553</u>	<u>139,396</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, 2016**

	Balance 6/30/2015	Receipts	Disbursements	Balance 6/30/2016
EAST HIGH				
Arboretum Project	\$ 4,505	\$ -	\$ 645	\$ 3,860
Art Club	667	1,596	1,414	849
Astronomy Club	1,207	1,214	990	1,431
AVID Club	304	-	1	303
Band	6,463	83,801	84,072	6,192
Baseball Fund	11,350	35,356	30,855	15,851
Black 7 Team	1,647	851	1,166	1,332
Black 8 Team	2,084	651	1,407	1,328
Boys Basketball	2,763	13,867	13,571	3,059
Boys Cross Country	1,178	1,769	1,515	1,432
Boys Golf	-	845	1,679	(834)
Boys Hockey Fund	3,816	9,902	13,718	-
Boys Lacrosse	-	3,650	3,069	581
Boys Soccer	1,128	7,338	6,095	2,371
Boys and Girls Swim Fund	28	2,331	2,468	(109)
Choir	23,053	100,467	105,143	18,377
Climbing Wall	291	1	-	292
Dance Company	952	1,270	1,310	912
DECA Conference	98	-	-	98
Distributive Education Club of America	8,633	8,501	9,163	7,971
Drama Fund	3,058	13,740	15,869	929
Fashion Travel	552	-	-	552
Football	1,745	7,775	6,989	2,531
Future Homemakers of America	92	-	-	92
Girls Basketball	2,301	6,998	6,240	3,059
Girls Cross Country	119	352	546	(75)
Girls Golf	853	600	15	1,438
Girls Hockey	730	12,527	9,970	3,287
Girls Soccer	1,489	3,776	2,727	2,538
Girls Softball	3,299	6,719	7,255	2,763
Girls Swim	1,866	3,858	4,146	1,578
Girls Tennis	21	404	320	105
Gold 7 Team	1,895	851	1,166	1,580
Gold 8 Team	1,683	891	1,295	1,279
Gymnastics	756	4,733	2,865	2,624
GSA	-	92	-	92
Hall of Fame	61	2,005	1,666	400
Interest, Student Investment	-	3,051	3,284	(233)
Junior High Activity	3,449	120	86	3,483
Junior High Author Day	789	-	134	655

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, 2016**

	Balance 6/30/2015	Receipts	Disbursements	Balance 6/30/2016
EAST HIGH (CONTINUED)				
Junior High Choir	\$ 1,101	\$ -	\$ -	\$ 1,101
Junior High Project Right Start	2,819	199	-	3,018
Junior High Science Club	1,961	-	1,746	215
Junior High Student Council	2,317	1,225	1,805	1,737
Junior High Yearbook	1,955	10,039	8,733	3,261
Key Club	120	1,674	93	1,701
Knowledge Bowl	403	1,079	1,082	400
"M" Club	690	8,797	3,946	5,541
Math League	374	35	-	409
Media	48	-	-	48
National Honor Society	1,300	808	881	1,227
Orchestra	4,262	47,294	53,942	(2,386)
Outdoor Education	-	2,209	2,864	(655)
Photo Club	1,605	-	-	1,605
Physics	30	1,571	1,432	169
Prom Fund	2,191	12,769	11,517	3,443
SADD	988	-	-	988
Senior Class	334	575	556	353
Social Studies	156	-	-	156
Speech/Debate	3,153	1,757	2,288	2,622
SPIRIT	25,072	20,730	17,412	28,390
Student Council	798	1,700	1,751	747
Table Tennis	246	-	-	246
Track and Field	26	2,170	195	2,001
VEX Robotics	4,825	15,195	14,537	5,483
Volleyball	3,631	604	1,675	2,560
World Language Club	1,546	5,232	5,983	795
Wrestling Fund	2,818	6,399	4,162	5,055
XYZ Club	70	200	119	151
Youth Services	68	-	-	68
TOTAL EAST HIGH	<u>159,832</u>	<u>484,163</u>	<u>479,573</u>	<u>164,422</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, 2016**

	Balance 6/30/2015	Receipts	Disbursements	Balance 6/30/2016
OTHER				
Adult Education Store	\$ 1,385	\$ 6,827	\$ 5,701	\$ 2,511
Bridges	98	-	-	98
Central High School Store	1,051	2,811	3,510	352
Dakota Meadows Student Recognition	6,357	1,369	21	7,705
Dakota Meadows Diversity Program	202	-	-	202
Dakota Meadows Author Day	651	-	-	651
Dakota Meadows Band	159	563	564	158
Dakota Meadows Choir Fund	600	-	-	600
Dakota Meadows Courage Retreat	17	-	1	16
Dakota Meadows Drama Club	405	-	-	405
Dakota Meadows Kasota Trail	625	675	1,095	205
Dakota Meadows Mankato Trail	1,102	1,414	1,251	1,265
Dakota Meadows Minneopa Trail	401	7,805	6,873	1,333
Dakota Meadows Orchestra	10	-	-	10
Dakota Meadows Sakatah Trail	631	351	-	982
Dakota Meadows Science Club	1,000	3,006	2,975	1,031
Dakota Meadows Seventh Grade Transition	1,912	462	323	2,051
Dakota Meadows Student Council	1,373	6,569	6,644	1,298
Dakota Meadows Student Funds	8,506	1,620	-	10,126
Dakota Meadows Yearbook	5,493	10,498	11,244	4,747
Day Treatment	500	-	835	(335)
Debate	5,710	6,535	1,638	10,607
District Science Boards	-	639	578	61
Eagle Lake Elementary	9,482	2,204	7,649	4,037
Elementary Child	2,909	2,280	1,684	3,505
Franklin Student Council	2,633	1,612	30	4,215
Garfield Student Council	1,160	-	-	1,160
Guthrie District Transportation	825	2,405	2,891	339
Hard of Hearing	1,613	2,434	2,171	1,876
Hoover Student Council	526	1,243	641	1,128
HOSA	4,544	9,362	7,394	6,512
Jefferson Elementary	870	1,643	1,876	637
Monroe Student Council	118	1	-	119
Roosevelt Student Council	654	1,838	803	1,689
State Capital Trips	9,495	-	1,692	7,803
Washington PE	234	-	234	-
Washington Student Council	409	1	-	410
TOTAL OTHER	<u>73,660</u>	<u>76,167</u>	<u>70,318</u>	<u>79,509</u>
GRAND TOTAL	<u>\$ 369,730</u>	<u>\$ 843,041</u>	<u>\$ 829,444</u>	<u>\$ 383,327</u>

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, 2016**

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, 2016, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated November 11, 2016. 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 2016-004 and 2016-005. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding 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

Austin, Minnesota
November 11, 2016

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND RESPONSES –
STUDENT ACTIVITY FUNDS
JUNE 30, 2016**

**Finding: 2016-004 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:

Jerry Kolander, Director of Business Affairs, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is November 30, 2016.

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, 2016**

Finding: 2016-005 MINNESOTA LEGAL COMPLIANCE – DEFICIT ACCOUNT BALANCES

We noted 11 activity accounts that had a deficit account balance at year end. According to the *Manual for Activity Fund Accounting*, individual account balances should not be a deficit amount.

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 work with the advisors of accounts with deficit balances to replenish the deficit early in the 2016-2017 school year. If the deficit cannot be restored, money will have to be transferred to eliminate the deficit.

Official Responsible for Ensuring CAP:

Jerry Kolander, Director of Business Affairs, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is November 30, 2016.

Plan to Monitor Completion of CAP:

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

