

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

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2015**



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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, 2015**

**BOARD OF EDUCATION**

Ann Hendricks	Chairperson
Jodi Sapp	Vice Chairperson
Kristi Schuck	Director
Kinney Eberhart	Director
Judi Brandon	Clerk
Tom Rekstein	Treasurer
Sara Hansen	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, 2015, 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, 2015, and the respective changes in financial position and cash flows, where applicable, and budgetary comparison for General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**

During fiscal year ended June 30, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the District reported a restatement for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

**Emphasis of a Matter Regarding the Correction of an Error**

As described in Note 1 to the financial statements, the District has restated its July 1, 2014 beginning fund balance for the General Fund. This restatement is due to an overstatement of expenditures in the General Fund. Our auditors' opinion was not modified with respect to this matter.

**Report on Summarized Comparative Information**

We have previously audited Independent School District No. 77's 2014 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 4, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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.



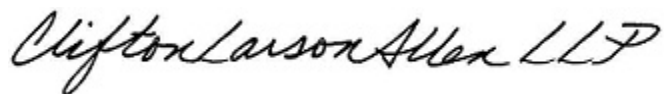
*Other Information*

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Changes in Fund Equities, the Uniform Financial Accounting and Reporting Standards Compliance Table and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015 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  
October 21, 2015

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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, 2015**

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, 2015. Please read it in conjunction with the District's financial statements, which immediately follows this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2014-2015 fiscal year include the following:

- Construction has progressed on projects that were approved in the 2013 \$69.5 million dollar bond referendum. The renovation of the West High cafeteria was completed, the addition of a sixth grade wing to Dakota Meadows Middle School was nearing completion, construction began on the new middle school named Prairie Winds Middle School, the remodel of Garfield Elementary has started and the remodel of East High School is scheduled for bid in January 2016.
- The General Fund Balance increased from a restated balance of \$14,915,725 on June 30, 2014 to \$15,304,045 on June 30, 2015.
- The Community Service Fund Balance increased from \$1,138,608 on June 30, 2014 to \$1,417,246 on June 30, 2015.

**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, 2015**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

Due to the recognition of future employee pension liabilities required in GASB 68 the District's *combined* net position decreased to a negative \$19,668,919 on June 30, 2015.

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

	<b>Governmental Activities</b>		<b>Percentage Change</b>
	<b>2015</b>	<b>2014</b>	
Current and Other Assets	\$ 113,325,635	\$ 124,975,721	-9.32%
Capital and Non-Current Assets	70,011,807	57,685,712	21.37%
<b>Total Assets</b>	<b>183,337,442</b>	<b>182,661,433</b>	<b>0.37%</b>
<b>Deferred Outflows of Resources</b>	<b>9,030,722</b>	<b>-</b>	<b>N/A</b>
Current Liabilities	21,531,442	17,013,693	26.55%
Long-Term Liabilities	156,511,424	115,581,432	35.41%
<b>Total Liabilities</b>	<b>178,042,866</b>	<b>132,595,125</b>	<b>34.28%</b>
<b>Deferred Inflows of Resources</b>	<b>33,994,217</b>	<b>19,345,624</b>	<b>75.72%</b>
Net Position			
Net Investment in Capital Assets	26,555,890	26,022,900	2.05%
Restricted	8,882,831	12,366,536	-28.17%
Unrestricted	(55,107,640)	(7,668,752)	618.60%
<b>Total Net Position</b>	<b>\$ (19,668,919)</b>	<b>\$ 30,720,684</b>	<b>-164.03%</b>

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

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

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

	<b>Governmental Activities for the fiscal year ended June 30,</b>		<b>Total % Change</b>
	<b>2015</b>	<b>2014</b>	
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 5,103,899	\$ 5,100,172	0.07%
Operating Grants and Contributions	25,218,878	24,234,548	4.06%
Capital Grants and Contributions	1,419,997	814,043	74.44%
<u>General Revenues</u>			
Property Taxes	20,668,580	12,736,475	62.28%
Unrestricted State Aid	49,219,867	49,778,738	-1.12%
Investment Earnings	335,812	217,036	54.73%
Other	25,285	95,367	-73.49%
Total Revenues	<u>101,992,318</u>	<u>92,976,379</u>	
<b>Expenses</b>			
Administration	2,845,798	2,856,356	-0.37%
District Support Services	1,456,323	1,361,145	6.99%
Regular Instruction	42,670,201	40,580,251	5.15%
Vocational Education Instruction	966,661	963,032	0.38%
Special Education Instruction	16,249,180	15,993,552	1.60%
Instructional Support Services	5,966,042	5,812,482	2.64%
Pupil Support Services	5,571,998	5,249,398	6.15%
Sites and Buildings	7,602,497	7,195,225	5.66%
Fiscal and Other Fixed Cost Programs	226,706	209,993	7.96%
Food Service	3,948,002	3,628,051	8.82%
Community Service	5,505,052	5,135,249	7.20%
Interest and Fiscal Charges on Long-Term Liabilities	4,489,587	2,955,036	51.93%
Total Expenses	<u>97,498,047</u>	<u>91,939,770</u>	6.05%
<b>Increase in Net Position</b>	4,494,271	1,036,609	
Beginning Net Position, As Previously Stated	30,720,684	29,762,188	
Prior Period Adjustment	(54,883,874)	(78,113)	
Beginning Net Position, As Restated	<u>(24,163,190)</u>	<u>29,684,075</u>	
Ending Net Position	<u>\$ (19,668,919)</u>	<u>\$ 30,720,684</u>	

**Changes in Net Position**

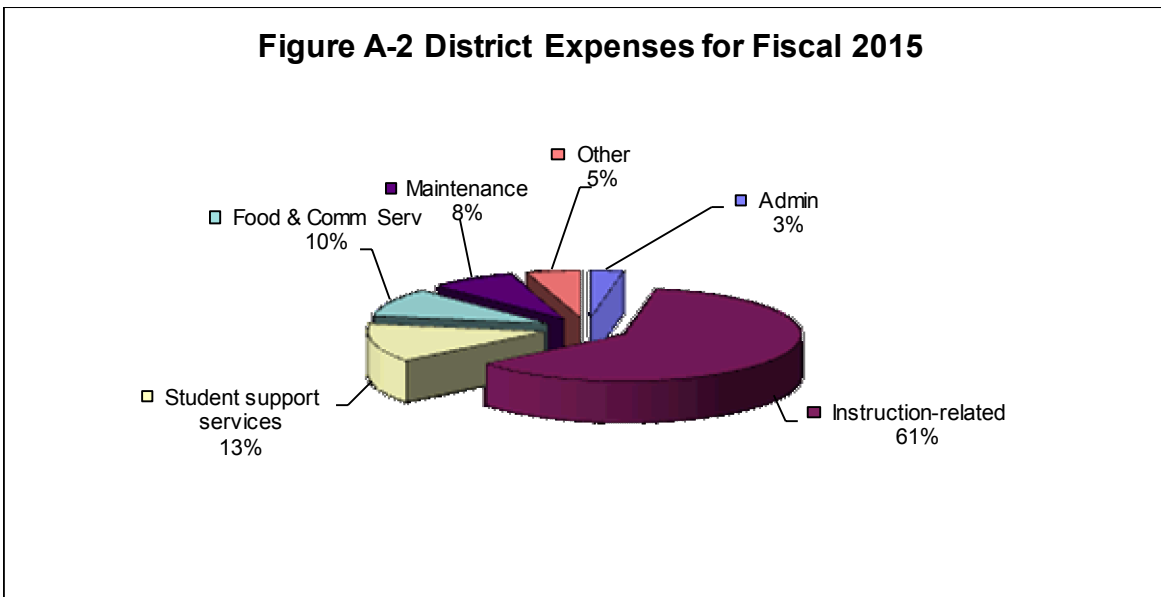
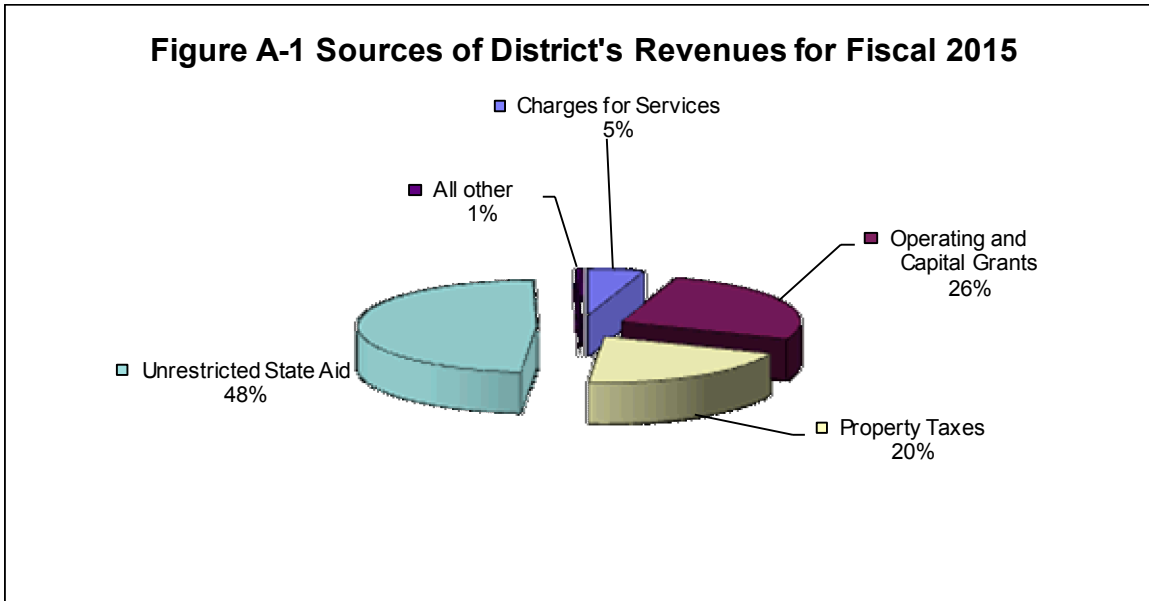
The District's total revenues were \$101,992,318 for the year ended June 30, 2015. Unrestricted state aid accounted for 48%, property taxes accounted for 20%, operating and capital grants accounted for 26%, and charges for services accounted for 6%. (See Figure A-1).

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

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

The total cost of all programs and services was \$97,498,047. Direct instruction related costs accounted for 61%, student support services accounted for 13%, buildings and equipment costs accounted for 8%, community education services and food service accounted for 10%, administration 3%, and other expenses accounted for 5% of the total. (See Figure A-2)

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





**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

**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**

	<b>Total Cost of Services</b>		<b>Percentage Change</b>	<b>Net Cost of Services</b>		<b>Percentage Change</b>
	<b>2015</b>	<b>2014</b>		<b>2015</b>	<b>2014</b>	
Administration	\$ 2,845,798	\$ 2,856,356	-0.37%	\$ 2,844,579	\$ 2,855,914	-0.40%
District Support Services	1,456,323	1,361,145	6.99%	1,434,424	1,347,372	6.46%
Regular Instruction	42,670,201	40,580,251	5.15%	33,467,200	31,773,720	5.33%
Vocational Education Instruction	966,661	963,032	0.38%	915,265	911,673	0.39%
Special Education Instruction	16,249,180	15,993,552	1.60%	4,272,147	3,824,474	11.71%
Instructional Support Services	5,966,042	5,812,482	2.64%	5,306,518	5,566,363	-4.67%
Pupil Support Services	5,571,998	5,249,398	6.15%	5,374,285	5,051,637	6.39%
Sites and Buildings	7,602,497	7,195,225	5.66%	6,841,534	6,630,016	3.19%
Fiscal and Other Fixed Cost Programs	226,706	209,993	7.96%	226,706	209,993	7.96%
Food Service	3,948,002	3,628,051	8.82%	32,960	(87,280)	-137.76%
Community Service	5,505,052	5,135,249	7.20%	557,919	752,089	-25.82%
Interest and Fiscal Charges on Long-Term Liabilities	4,489,587	2,955,036	51.93%	4,481,736	2,955,036	51.66%
<b>Total</b>	<b>\$ 97,498,047</b>	<b>\$ 91,939,770</b>	<b>6.05%</b>	<b>\$ 65,755,273</b>	<b>\$ 61,791,007</b>	<b>6.42%</b>

**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 \$12,164,897 for the year ended June 30, 2015. This is primarily a result of the expenses 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, 2015**

**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. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68% of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

**ENROLLMENT**

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

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

<b>Grade</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
EC	121	117	115	111	118
HK	99	104	90	100	98
Kdgt.	513	529	593	590	574
1-3	1,780	1,815	1,842	1,892	2,003
4-6	1,695	1,704	1,711	1,707	1,742
7-12	3,166	3,210	3,223	3,245	3,324
Total K-12 ADM	7,374	7,479	7,574	7,645	7,859
ADM Change	N/A	105	95	71	214
Percent Change	N/A	1.4%	1.3%	0.9%	2.8%

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](http://www.isd77.org).

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

**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, 2015</u>	<u>June 30, 2014</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Local Sources				
Property Taxes	\$ 11,084,481	\$ 6,802,946	\$ 4,281,535	62.9%
Earnings on Investments	15,717	6,141	9,576	155.9%
Other	1,533,712	1,759,721	(226,009)	-12.8%
State Sources	67,500,702	66,747,218	753,484	1.1%
Federal Sources	3,032,569	2,991,805	40,764	1.4%
Total General Fund Revenue	<u>\$ 83,167,181</u>	<u>\$ 78,307,831</u>	<u>\$ 4,859,350</u>	6.2%

Total General Fund Revenue increased by \$4,859,350 or 6.2% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6  
General Fund Expenditures**

	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Salaries	\$ 49,409,503	\$ 47,227,916	\$ 2,181,587	4.6%
Employee Benefits	17,827,368	17,350,437	476,931	2.7%
Purchased Services	7,237,835	6,864,474	373,361	5.4%
Supplies and Materials	3,196,787	3,374,793	(178,006)	-5.3%
Capital Expenditures	4,584,944	3,891,366	693,578	17.8%
Other Expenditures	522,424	373,011	149,413	40.1%
Total Expenditures	<u>\$ 82,778,861</u>	<u>\$ 79,081,997</u>	<u>\$ 3,696,864</u>	4.7%

Total General Fund Expenditures increased \$3,696,864 or about 4.7% from the previous year.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

**GENERAL FUND (CONTINUED)**

The total fund balance at June 30, 2015, is \$15,304,045. Of this amount \$4,018,878 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, 2015 is \$1,067,564, a decrease of \$184,135 from June 30, 2014.

Food Service Fund Revenues for the year ended June 30, 2015 totaled \$3,916,099. This was an increase of \$200,309 or 5.3% from the year ended June 30, 2014. 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, 2015 totaled \$4,100,234. This was an increase of \$457,365 or 12.5% from the year ended June 30, 2014. Kitchen equipment was purchased for the West High School cafeteria renovation.

**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, 2015 is \$1,417,246, an increase of \$278,638 from June 30, 2014.

Community Service Fund Revenues for the year ended June 30, 2015 totaled \$5,813,800. This was an increase of \$592,597 or 11.3% from the year ended June 30, 2014. 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, 2015 totaled \$5,535,162. This was an increase of \$399,977 or 7.7% from the year ended June 30, 2014. 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, 2015**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of fiscal 2015, the District had invested over \$70 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 \$2,572,063.

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

	<u>2015</u>	<u>2014</u>	<u>Percentage Change</u>
Land	\$ 4,120,830	\$ 4,120,830	0.0%
Construction in Progress	13,272,707	1,362,374	874.2%
Land Improvements	6,004,738	5,762,701	4.2%
Buildings and Improvements	84,123,855	82,437,475	2.0%
Equipment	6,571,906	5,554,864	18.3%
Less: Accumulated Depreciation	<u>(44,082,229)</u>	<u>(41,552,532)</u>	<u>6.1%</u>
<b>Total</b>	<u><u>\$ 70,011,807</u></u>	<u><u>\$ 57,685,712</u></u>	<u><u>21.4%</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 \$6,883,407 as of June 30, 2015 includes a portion of the reoffering premium from the 2015 bond sale to effectively reduce the interest cost. The Series 2006A bonds will be advance refunded with the proceeds held in escrow until the call date. The fund balance amount along with the payable 2014 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, 2015**

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

**Long-Term Liabilities**

At year-end, the District had \$114,139,565 in general obligation bonds, bond premium/discount and lease purchase agreements.

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

	<u>2015</u>	<u>2014</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 108,855,000	\$ 112,490,000	-3.23%
Bond Premium/Discount	4,098,093	4,253,973	-3.66%
Capital Leases Payable	1,186,472	1,328,706	-10.70%
Net Pension Liability	48,173,072	-	N/A
Severance and Wellness Benefits Payable	4,969,299	5,213,633	-4.69%
Compensated Absences Payable	504,470	475,827	6.02%
<b>Total</b>	<u><u>\$ 167,786,406</u></u>	<u><u>\$ 123,762,139</u></u>	<u><u>35.57%</u></u>
Long-Term Liabilities:			
Due Within One Year	\$ 11,274,982	\$ 8,180,707	
Due in More Than One Year	<u>156,511,424</u>	<u>115,581,432</u>	
	<u><u>\$ 167,786,406</u></u>	<u><u>\$ 123,762,139</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, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Cash and Investments	\$ 85,593,834	\$ 96,869,439
Cash and Investments Held by Trustee	3,672,034	-
Receivables		
Property Taxes	10,239,531	10,151,347
Other Governments	7,482,166	9,777,419
Other	393,559	444,065
Prepaid Items	57,397	10,936
Inventories	42,876	62,123
Prefunded Other Post Employment Benefit Obligations	5,844,238	7,660,392
Capital Assets		
Land and Construction in Progress	17,393,537	5,483,204
Other Capital Assets, Net of Depreciation	52,618,270	52,202,508
Total Assets	<u>183,337,442</u>	<u>182,661,433</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Related	9,030,722	-
Total Deferred Outflows of Resources	<u>9,030,722</u>	<u>-</u>
<b>LIABILITIES</b>		
Salaries and Payroll Deductions Payable	4,039,806	4,392,107
Accounts and Contracts Payable	4,234,543	2,259,540
Accrued Interest	1,843,563	1,821,666
Due to Other Governmental Units	1,795	2,080
Unearned Revenue	136,753	357,593
Long-Term Liabilities		
Portion Due Within One Year	11,274,982	8,180,707
Portion Due in More Than One Year	156,511,424	115,581,432
Total Liabilities	<u>178,042,866</u>	<u>132,595,125</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes Levied for Subsequent Year	19,333,804	19,345,624
Pension Related	14,660,413	-
Total Deferred Inflows of Resources	<u>33,994,217</u>	<u>19,345,624</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	26,555,890	26,022,900
Restricted for:		
Operating Capital Purposes	2,152,323	2,359,920
State-Mandated Restrictions	2,449,388	2,584,198
Food Service	1,067,564	1,251,699
Community Service	1,432,508	1,153,063
Debt Service	1,781,048	5,017,656
Unrestricted	<u>(55,107,640)</u>	<u>(7,668,752)</u>
Total Net Position	<u>\$ (19,668,919)</u>	<u>\$ 30,720,684</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

<b>2015</b>			
<b>Functions</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Program Operating Grants and Contributions</b>
<b>Governmental Activities</b>			
Administration	\$ 2,845,798	\$ -	\$ -
District Support Services	1,456,323	-	-
Regular Instruction	42,670,201	553,713	8,528,367
Vocational Education Instruction	966,661	-	51,396
Special Education Instruction	16,249,180	10,000	11,965,880
Instructional Support Services	5,966,042	27,121	-
Pupil Support Services	5,571,998	-	193,638
Sites and Buildings	7,602,497	122,636	-
Fiscal and Other Fixed Cost Programs	226,706	-	-
Food Service	3,948,002	1,529,014	2,386,028
Community Service	5,505,052	2,861,415	2,085,718
Interest and Fiscal Charges on Long-Term Liabilities	4,489,587	-	7,851
Total School District	\$ 97,498,047	\$ 5,103,899	\$ 25,218,878

**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, As Previously Stated

Prior Period Adjustment

Net Position - Beginning of Year, Restated

Net Position - End of Year

See accompanying Notes to Financial Statements.

<b>2015</b>		<b>2014</b>	
<b>Revenues</b>	<b>Net (Expense) Revenue and Changes in Net Position</b>	<b>Net (Expense) Revenue and Changes in Net Position</b>	
<b>Capital Grants and Contributions</b>	<b>Total Governmental Activities</b>	<b>Total Governmental Activities</b>	
\$ 1,219	\$ (2,844,579)	\$ (2,855,914)	
21,899	(1,434,424)	(1,347,372)	
120,921	(33,467,200)	(31,773,720)	
-	(915,265)	(911,673)	
1,153	(4,272,147)	(3,824,474)	
632,403	(5,306,518)	(5,566,363)	
4,075	(5,374,285)	(5,051,637)	
638,327	(6,841,534)	(6,630,016)	
-	(226,706)	(209,993)	
-	(32,960)	87,280	
-	(557,919)	(752,089)	
-	<u>(4,481,736)</u>	<u>(2,955,036)</u>	
<u>\$ 1,419,997</u>	<u>(65,755,273)</u>	<u>(61,791,007)</u>	

11,079,455	6,845,368
861,016	450,537
8,728,109	5,440,570
49,219,867	49,778,738
335,812	217,036
25,285	95,367
<u>70,249,544</u>	<u>62,827,616</u>
4,494,271	1,036,609
30,720,684	29,762,188
<u>(54,883,874)</u>	<u>(78,113)</u>
<u>(24,163,190)</u>	<u>29,684,075</u>
<u>\$ (19,668,919)</u>	<u>\$ 30,720,684</u>

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	Major		
	General	Food Service	Community Service
<b>ASSETS</b>			
Cash and Investments	\$ 18,610,677	\$ 1,137,322	\$ 1,699,533
Cash and Investments Held by Trustee	-	-	-
Receivables			
Current Property Taxes	5,490,186	-	411,545
Delinquent Property Taxes	213,472	-	15,262
Due from Minnesota Department of Education	5,595,087	13,722	125,105
Due from Federal through Minnesota Department of Education	1,406,150	69,715	267,787
Other Receivables	105,663	15,788	14,197
Prepaid Items	-	-	-
Inventory	-	42,876	-
Total Assets	<u>\$ 31,421,235</u>	<u>\$ 1,279,423</u>	<u>\$ 2,533,429</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>			
Liabilities			
Salaries and Payroll Deductions Payable	\$ 3,874,181	\$ 11,505	\$ 154,120
Accounts and Contracts Payable	1,659,557	106,722	95,523
Due to Other Governmental Units	1,795	-	-
Unearned Revenue	36,879	93,632	6,242
Total Liabilities	<u>5,572,412</u>	<u>211,859</u>	<u>255,885</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	10,331,306	-	845,036
Unavailable Revenue - Delinquent Property Taxes	213,472	-	15,262
Total Deferred Inflows of Resources	<u>10,544,778</u>	<u>-</u>	<u>860,298</u>
Fund Balance			
Nonspendable:			
Prepaid Items	-	-	-
Inventory	-	42,876	-
Restricted:			
Staff Development	253,079	-	-
Health and Safety	(582,833)	-	-
Deferred Maintenance	262,335	-	-
Operating Capital	2,152,323	-	-
Learning and Development	1,099,327	-	-
Teacher Development and Evaluation	148,920	-	-
Basic Skills Programs	685,727	-	-
Community Education Programs	-	-	853,867
Early Childhood and Family Education Programs	-	-	410,080
School Readiness	-	-	107,421
Adult Basic Education	-	-	45,878
Bond Refundings	-	-	-
Other Purposes	-	1,024,688	-
Assigned:			
Separation/Retirement Benefits	690,000	-	-
Unassigned	10,595,167	-	-
Total Fund Balance	<u>15,304,045</u>	<u>1,067,564</u>	<u>1,417,246</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 31,421,235</u>	<u>\$ 1,279,423</u>	<u>\$ 2,533,429</u>

See accompanying Notes to Financial Statements.

Funds			Total Governmental	
Capital Projects	Debt Service	OPEB Debt Service	Funds	
			2015	2014
\$ 56,072,302	\$ 6,881,195	\$ 847,946	\$ 85,248,975	\$ 96,549,479
-	3,672,034	-	3,672,034	-
-	3,490,806	481,969	9,874,506	9,807,337
-	108,975	27,316	365,025	344,010
-	3,658	942	5,738,514	6,805,910
-	-	-	1,743,652	2,971,509
254,382	3,529	-	393,559	444,065
57,397	-	-	57,397	10,936
-	-	-	42,876	62,123
<u>\$ 56,384,081</u>	<u>\$ 14,160,197</u>	<u>\$ 1,358,173</u>	<u>\$ 107,136,538</u>	<u>\$ 116,995,369</u>
\$ -	\$ -	\$ -	\$ 4,039,806	\$ 4,392,107
2,076,066	-	-	3,937,868	1,967,371
-	-	-	1,795	2,080
-	-	-	136,753	357,593
<u>2,076,066</u>	<u>-</u>	<u>-</u>	<u>8,116,222</u>	<u>6,719,151</u>
-	7,167,815	989,647	19,333,804	19,345,624
-	108,975	27,316	365,025	344,010
-	<u>7,276,790</u>	<u>1,016,963</u>	<u>19,698,829</u>	<u>19,689,634</u>
57,397	-	-	57,397	10,936
-	-	-	42,876	62,123
-	-	-	253,079	220,195
-	-	-	(582,833)	(245,638)
-	-	-	262,335	380,632
-	-	-	2,152,323	2,359,920
-	-	-	1,099,327	1,123,160
-	-	-	148,920	-
-	-	-	685,727	860,211
-	-	-	853,867	663,238
-	-	-	410,080	315,104
-	-	-	107,421	56,407
-	-	-	45,878	103,859
-	3,675,563	-	3,675,563	-
54,250,618	3,207,844	341,210	58,824,360	75,369,928
-	-	-	690,000	690,000
-	-	-	10,595,167	8,616,509
<u>54,308,015</u>	<u>6,883,407</u>	<u>341,210</u>	<u>79,321,487</u>	<u>90,586,584</u>
<u>\$ 56,384,081</u>	<u>\$ 14,160,197</u>	<u>\$ 1,358,173</u>	<u>\$ 107,136,538</u>	<u>\$ 116,995,369</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, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	<b>2015</b>	<b>2014</b>
<b>Total Fund Balance for Governmental Funds</b>	<b>\$ 79,321,487</b>	<b>\$ 90,586,584</b>
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	4,120,830	4,120,830
Construction in Progress	13,272,707	1,362,374
Land Improvements, Net of Accumulated Depreciation	4,016,783	4,045,237
Buildings and Improvements, Net of Accumulated Depreciation	45,873,412	46,132,285
Equipment, Net of Accumulated Depreciation	2,728,075	2,024,986
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.		
	365,025	344,010
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(1,843,563)	(1,821,666)
Contributions in excess of the OPEB liability recognized to date, are not current financial resources and therefore are not reported at the fund level.		
	5,844,238	7,660,392
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:		
	48,184	27,791
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	(48,173,072)	-
Deferred Outflows of Resources - Pensions	9,030,722	-
Deferred Inflows of Resources - Pensions	(14,660,413)	-
Bonds Payable	(108,855,000)	(112,490,000)
Unamortized Premiums	(4,169,300)	(4,333,476)
Unamortized Discounts	71,207	79,503
Capital Leases Payable	(1,186,472)	(1,328,706)
Severance and Wellness Benefits Payable	(4,969,299)	(5,213,633)
Compensated Absences Payable	(504,470)	(475,827)
<b>Total Net Position of Governmental Activities</b>	<b>\$ (19,668,919)</b>	<b>\$ 30,720,684</b>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

	Major		
	General	Food Service	Community Service
<b>REVENUES</b>			
Local Sources			
Property Taxes	\$ 11,084,481	\$ -	\$ 860,209
Earnings on Investments	15,717	1,057	1,376
Other	1,533,712	1,529,014	3,262,322
State Sources	67,500,702	201,790	1,348,155
Federal Sources	3,032,569	2,184,238	341,738
Total Revenues	<u>83,167,181</u>	<u>3,916,099</u>	<u>5,813,800</u>
<b>EXPENDITURES</b>			
Current			
Administration	2,885,628	-	-
District Support Services	1,433,609	-	-
Regular Instruction	40,231,413	-	-
Vocational Education Instruction	964,257	-	-
Special Education Instruction	16,315,296	-	-
Instructional Support Services	4,536,153	-	-
Pupil Support Services	5,525,815	-	-
Sites and Buildings	6,075,909	-	-
Fiscal and Other Fixed Cost Programs	225,837	-	-
Food Service	-	3,839,134	-
Community Service	-	-	5,493,108
Capital Outlay	4,584,944	261,100	42,054
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>82,778,861</u>	<u>4,100,234</u>	<u>5,535,162</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	388,320	(184,135)	278,638
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of Bonds Proceeds	-	-	-
Bond Premium	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	388,320	(184,135)	278,638
Fund Balances - Beginning, As Previously Stated	14,015,925	1,251,699	1,138,608
Prior Period Adjustment	899,800	-	-
Fund Balances - Beginning, Restated	<u>14,915,725</u>	<u>1,251,699</u>	<u>1,138,608</u>
Fund Balances - Ending	<u>\$ 15,304,045</u>	<u>\$ 1,067,564</u>	<u>\$ 1,417,246</u>

See accompanying Notes to Financial Statements.



<b>Funds</b>			<b>Total Governmental</b>	
<b>Capital Projects</b>	<b>Debt Service</b>	<b>OPEB Debt Service</b>	<b>Funds</b>	
			<b>2015</b>	<b>2014</b>
\$ -	\$ 6,916,519	\$ 1,786,356	\$ 20,647,565	\$ 12,676,512
309,993	14,673	825	343,641	217,016
-	-	-	6,325,048	6,113,031
-	36,446	9,389	69,096,482	68,637,243
-	-	-	5,558,545	5,272,594
<u>309,993</u>	<u>6,967,638</u>	<u>1,796,570</u>	<u>101,971,281</u>	<u>92,916,396</u>
-	-	-	2,885,628	2,848,586
-	-	-	1,433,609	1,333,561
-	-	-	40,231,413	38,043,584
-	-	-	964,257	955,288
-	-	-	16,315,296	15,989,957
-	-	-	4,536,153	4,753,292
-	-	-	5,525,815	5,200,296
-	-	-	6,075,909	5,856,857
-	-	869	226,706	209,993
-	-	-	3,839,134	3,571,202
-	-	-	5,493,108	5,035,052
13,462,482	-	-	18,350,580	5,732,056
-	5,945,000	1,370,000	7,315,000	4,045,000
-	4,299,986	389,210	4,689,196	1,969,253
<u>13,462,482</u>	<u>10,244,986</u>	<u>1,760,079</u>	<u>117,881,804</u>	<u>95,543,977</u>
(13,152,489)	(3,277,348)	36,491	(15,910,523)	(2,627,581)
-	3,680,000	-	3,680,000	69,500,000
-	65,626	-	65,626	4,229,260
-	-	-	-	4,807,640
-	-	-	-	(4,807,640)
-	<u>3,745,626</u>	-	<u>3,745,626</u>	<u>73,729,260</u>
(13,152,489)	468,278	36,491	(12,164,897)	71,101,679
67,460,504	6,415,129	304,719	90,586,584	19,563,018
-	-	-	899,800	(78,113)
<u>67,460,504</u>	<u>6,415,129</u>	<u>304,719</u>	<u>91,486,384</u>	<u>19,484,905</u>
<u>\$ 54,308,015</u>	<u>\$ 6,883,407</u>	<u>\$ 341,210</u>	<u>\$ 79,321,487</u>	<u>\$ 90,586,584</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, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

	<b>2015</b>	<b>2014</b>
<b>Net Change in Fund Balance-Total Governmental Funds</b>	<b>\$ (12,164,897)</b>	<b>\$ 71,101,679</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$4,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	14,898,158	2,754,833
Loss on Disposal of Capital Assets	-	(21,470)
Depreciation Expense	(2,572,063)	(2,488,319)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Change in Accrued Interest Expense - Capital Leases	1,574	1,483
Principal Payments - Capital Leases	142,234	146,096
Pension expenses on the governmental funds are measured by current year employee contributions. Pension expenditures on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.		
	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	(3,680,000)	(69,500,000)
Bond Premium	(65,626)	(4,229,260)
Repayment of Bond Principal	7,315,000	4,045,000
Change in Accrued Interest Expense - General Obligation Bonds	(23,471)	(993,971)
Amortization of Bond Issuance Costs	-	(88,962)
Amortization of Bond Premium	229,802	103,963
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.		
	21,015	59,963
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).		
	(916,354)	11,547
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).		
	215,691	125,293
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.		
	20,393	17,030
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 4,494,271</b>	<b>\$ 1,036,609</b>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Sources				
Property Taxes	\$ 10,829,460	\$ 10,929,460	\$ 11,084,481	\$ 155,021
Earnings on Investments	-	-	15,717	15,717
Other	1,773,600	1,773,600	1,533,712	(239,888)
State Sources	66,145,008	66,228,819	67,500,702	1,271,883
Federal Sources	<u>2,515,000</u>	<u>2,906,962</u>	<u>3,032,569</u>	<u>125,607</u>
Total Revenues	81,263,068	81,838,841	83,167,181	1,328,340
<b>EXPENDITURES</b>				
Current:				
Administration	2,266,717	3,105,564	2,885,628	(219,936)
District Support Services	1,183,695	1,546,422	1,433,609	(112,813)
Regular Instruction	30,623,225	40,877,536	40,231,413	(646,123)
Vocational Education Instruction	761,925	1,000,891	964,257	(36,634)
Special Education Instruction	14,202,327	15,849,372	16,315,296	465,924
Instructional Support Services	4,419,871	4,920,186	4,536,153	(384,033)
Pupil Support Services	5,132,330	5,750,276	5,525,815	(224,461)
Sites and Buildings	5,249,850	6,108,826	6,075,909	(32,917)
Fiscal and Other Fixed Cost Programs	14,784,220	723,284	225,837	(497,447)
Capital Outlay	<u>3,920,280</u>	<u>4,091,200</u>	<u>4,584,944</u>	<u>493,744</u>
Total Expenditures	82,544,440	83,973,557	82,778,861	(1,194,696)
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (1,281,372)</u>	<u>\$ (2,134,716)</u>	388,320	<u>\$ 2,523,036</u>
<b>FUND BALANCE</b>				
Beginning of Year, As Previously Stated			14,015,925	
Prior Period Adjustment			<u>899,800</u>	
Beginning of Year, Restated			<u>14,915,725</u>	
End of Year			<u>\$ 15,304,045</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, 2015**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Sources				
Earnings on Investments	\$ 200	\$ 200	\$ 1,057	\$ 857
Other - Primarily Meal Sales	1,534,500	1,523,500	1,529,014	5,514
State Sources	184,000	184,000	201,790	17,790
Federal Sources	1,902,000	2,055,500	2,184,238	128,738
Total Revenues	3,620,700	3,763,200	3,916,099	152,899
<b>EXPENDITURES</b>				
Current				
Food Service	3,540,341	3,709,841	3,839,134	129,293
Capital Outlay	225,000	265,000	261,100	(3,900)
Total Expenditures	3,765,341	3,974,841	4,100,234	125,393
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (144,641)	\$ (211,641)	(184,135)	\$ 27,506
<b>FUND BALANCE</b>				
Beginning of Year			1,251,699	
End of Year			\$ 1,067,564	

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, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Sources				
Property Taxes	\$ 855,379	\$ 855,379	\$ 860,209	\$ 4,830
Earnings on Investments	500	500	1,376	876
Other - Primarily Tuition and Fees	2,501,579	2,738,854	3,262,322	523,468
State Sources	1,358,393	1,355,619	1,348,155	(7,464)
Federal Sources	283,581	340,391	341,738	1,347
Total Revenues	<u>4,999,432</u>	<u>5,290,743</u>	<u>5,813,800</u>	<u>523,057</u>
<b>EXPENDITURES</b>				
Current				
Community Service	5,230,073	5,442,174	5,493,108	50,934
Capital Outlay	51,050	52,555	42,054	(10,501)
Total Expenditures	<u>5,281,123</u>	<u>5,494,729</u>	<u>5,535,162</u>	<u>40,433</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (281,691)</u>	<u>\$ (203,986)</u>	278,638	<u>\$ 482,624</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>1,138,608</u>	
End of Year			<u>\$ 1,417,246</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	<b>Governmental Activities - Internal Service Funds</b>	
	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Current Assets		
Cash and Investments	\$ 344,859	\$ 319,960
Total Assets	344,859	319,960
<b>LIABILITIES</b>		
Current Liabilities		
Claims Payable for Health and Dental Benefits	296,675	292,169
Total Current Liabilities	296,675	292,169
<b>NET POSITION</b>		
Unrestricted	48,184	27,791
Total Net Position	\$ 48,184	\$ 27,791

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, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

	<b>Governmental Activities - Internal Service Funds</b>	
	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
Charges for Services	\$ 553,376	\$ 533,257
Total Operating Revenues	<u>553,376</u>	<u>533,257</u>
<b>OPERATING EXPENSES</b>		
Dental Insurance Claim Payments	480,975	466,080
General Administration Fees	<u>52,030</u>	<u>50,167</u>
Total Operating Expenses	<u>533,005</u>	<u>516,247</u>
Operating Income	20,371	17,010
<b>NONOPERATING INCOME</b>		
Earnings on Investments	<u>22</u>	<u>20</u>
Change in Net Position	20,393	17,030
Total Net Position - Beginning	<u>27,791</u>	<u>10,761</u>
Total Net Position - Ending	<u><u>\$ 48,184</u></u>	<u><u>\$ 27,791</u></u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEARS ENDED JUNE 30, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

	<u>Governmental Activities - Internal Service Funds</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Interfund Services Provided	\$ 553,376	\$ 533,257
Payments for Administrative Costs	(52,030)	(50,167)
Payments for Medical Fees and Insurance Claims	(476,469)	(453,149)
Net Cash Provided by Operating Activities	<u>24,877</u>	<u>29,941</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Due From Other Funds	-	102,202
Net Cash Provided by Noncapital Financing Activities	<u>-</u>	<u>102,202</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	22	20
Net Increase in Cash and Cash Equivalents	<u>24,899</u>	<u>132,163</u>
Cash and Cash Equivalents - Beginning	<u>319,960</u>	<u>187,797</u>
Cash and Cash Equivalents - Ending	<u>\$ 344,859</u>	<u>\$ 319,960</u>
Displayed on Statement of Net Position as:		
Cash and Investments	<u>\$ 344,859</u>	<u>\$ 319,960</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 20,371	\$ 17,010
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Increase in Claims Payable	4,506	12,931
Total Adjustments	<u>4,506</u>	<u>12,931</u>
Net Cash Provided by Operating Activities	<u>\$ 24,877</u>	<u>\$ 29,941</u>

See accompanying Notes to Financial Statements.



**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2015**

	<u>Private- Purpose Trust</u>	<u>OPEB Benefit Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>			
Cash and Investments	\$ 112,426	\$ 13,433,611	\$ 910,188
Accounts Receivable	-	-	18,241
Prepaid Items	-	-	4,800
Total Assets	<u>112,426</u>	<u>13,433,611</u>	<u>\$ 933,229</u>
<b>LIABILITIES</b>			
Salaries and Payroll Deductions Payable	-	-	\$ 3,801
Accounts Payable and Due to Other Governments	1,000	-	929,428
Total Liabilities	<u>1,000</u>	<u>-</u>	<u>\$ 933,229</u>
<b>NET POSITION</b>			
Restricted for Payment of OPEB Benefits	-	13,433,611	
Restricted for Scholarships and Other Purposes	111,426	-	
Total Net Position	<u>\$ 111,426</u>	<u>\$ 13,433,611</u>	

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2015**

	<u>Private- Purpose Trust</u>	<u>OPEB Benefit Trust</u>
<b>ADDITIONS</b>		
Gifts and Donations	\$ 13,750	\$ -
Earnings on Investments	-	389,182
Total Additions	<u>13,750</u>	<u>389,182</u>
<b>DEDUCTIONS</b>		
Scholarships Awarded	34,536	-
Retirement Benefits	-	863,091
Administrative Costs	-	62,259
Total Deductions	<u>34,536</u>	<u>925,350</u>
Change in Net Position	(20,786)	(536,168)
Net Position - Beginning of Year	132,212	13,969,779
Net Position - End of Year	<u>\$ 111,426</u>	<u>\$ 13,433,611</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, 2015**

**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 Statues, 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, 2015**

**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.

**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.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus and Basis of Accounting (Continued)**

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

Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and the accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

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

**Description of Funds**

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

*Major Governmental Funds*

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

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

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus and Basis of Accounting (Continued)**

*Major Governmental Funds (Continued)*

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, 2015**

**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, federal agency bonds, and commercial paper. 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, 2015, cash and investments held by trustee consist of cash and cash equivalents and United States treasury securities held by an escrow agent for the purpose of refunding the General Obligation School Building Bonds, Series 2006A (See Note 4). These assets are sufficient to meet the debt service on the General Obligation Crossover Refunding Bonds of 2015A through the February 1, 2016 call date on the General Obligation School Building Bonds of 2006A.

**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.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Inventories**

Inventories are recorded using the consumption method of accounting and consist of food and other supplies on hand at June 30, 2015 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.

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, 2015, 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.



**MANKATO PUBLIC SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 30<sup>th</sup>, certain employee groups may carry forward up to one year of unpaid vacation. The expenditure for vacation pay is recognized when payment is made.

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

**Severance and Wellness Benefits Payable**

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

The District budgets for payment of severance benefits for the ensuing year when it anticipates the retirement of personnel requiring severance payments. The payment of severance benefits is recorded as a current expenditure in the year of the payment. Expenditures for severance pay made in 2015 were \$505,751. A liability for severance and wellness benefits payable totaling \$4,969,299 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 \$1,345 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, 2015.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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 2016. 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.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2014, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

**X. Correction of an Error**

The General Fund fund balance was restated at July 1, 2014 to reflect an overstatement of prior year expenditures and understated fund balance of \$899,800. The General Fund beginning fund balance of \$14,015,925 has been restated to \$14,915,725.

**Y. Change in Accounting Principle**

During fiscal year ended June 30, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result, the District's net position as of June 30, 2014 has been restated to reflect the recognition of the District's proportionate share of the Public Employees' Retirement Association of Minnesota General Employees' Retirement Fund's net pension liability as well as their portion of the Teacher's Retirement Association's Coordinated and Basic Plan net pension liability.

	Governmental Activities
Net Position, June 30, 2014, as Previously Reported	\$ 30,720,684
Cumulative Effect of Application of GASB 68, Net Pension Liability	(58,352,494)
Cumulative Effect of Application of GASB 71, Deferred Outflow of Resources for District Contributions Made to the Plan During Fiscal Year Ending June 30, 2014	3,468,620
Net Position, June 30, 2014, as Restated	\$ (24,163,190)

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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, 2015 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 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 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, 2015**

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

**B. Investments (Continued)**

At June 30, 2015, the District had the following investments:

**External Investment Pool**

	Amortized Cost
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 21,131,808
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	2,456,280
	\$ 23,588,088

The MSDLAF+ and MSDMAX are external investment pools and their investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of investments.

Credit Risk – The MSDLAF+ and MSDMAX pools are rated AAAM by Standard & Poor's.

The District also has the following investments:

	Fair Value
US Treasury Securities	\$ 12,612,235
Federal Agency Bonds	29,738,520
Commerical Paper	9,720,432
Mutual Funds - Equity	4,534,857
Mutual Funds - Fixed Income	8,860,050
First Amer Govt Oblig Fund CI Z Money Market	33,580
ICS Money Market Fund	7,945,682
	\$ 73,445,356

Credit Risk related to these securities is as follows:

Type	Credit Rating
US Treasury Securities	AA+
Federal Agency Bonds	AA+
Commerical Paper	A-1+/A-1
Mutual Funds - Equity	NR
Mutual Funds - Fixed Income	NR
First Amer Govt Oblig Fund CI Z Money Market	AAAM
ICS Money Market Fund	NR

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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, 2015, the District's investments have the following maturities:

Type	Fair Value	12 Months or Less	13 - 24 Months
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 21,131,808	\$21,131,808	\$ -
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	2,456,280	2,456,280	-
US Treasury Securities	12,612,235	12,612,235	-
Federal Agency Bonds	29,738,520	15,641,680	14,096,840
Commerical Paper	9,720,432	9,720,432	-
Mutual Funds - Equity	4,534,857	4,534,857	-
Mutual Funds - Fixed Income	8,860,050	8,860,050	-
First Amer Govt Oblig Fund CI Z Money Market	33,580	33,580	-
ICS Money Market Fund	7,945,682	7,945,682	-
	<u>\$ 97,033,444</u>	<u>\$ 82,936,604</u>	<u>\$ 14,096,840</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, 2015, 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 five percent of the District's total investments:

Type	Amount	Percentage
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 21,131,808	21.78%
FHLMC Notes	7,963,189	8.21%
FNMA Notes	21,775,331	22.44%
US Treasury Securities	12,612,235	13.00%

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**C. Balance Sheet Presentation**

Deposits	\$ 273,459
Cash on Hand	1,190
Minnesota School District Liquid Asset Fund CDs	6,414,000
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	21,131,808
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	2,456,280
US Treasury Securities	12,612,235
Federal Agency Bonds	29,738,520
Commerical Paper	9,720,432
Mutual Funds - Equity	4,534,857
Mutual Funds - Fixed Income	8,860,050
First Amer Govt Oblig Fund CI Z Money Market	33,580
ICS Money Market Fund	7,945,682
	<u>\$ 103,722,093</u>

These amounts are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 85,593,834
Cash and Investments Held by Trustee - Statement of Net Position	3,672,034
Cash and Investments - Statement of Fiduciary Net Position	14,456,225
Total Cash and Investments	<u>\$ 103,722,093</u>

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 4,120,830	\$ -	\$ -	\$ 4,120,830
Construction in Progress	1,362,374	14,684,370	(2,774,037)	13,272,707
Total Capital Assets, Not Being Depreciated	5,483,204	14,684,370	(2,774,037)	17,393,537
Capital Assets, Being Depreciated				
Land Improvements	5,762,701	242,037	-	6,004,738
Buildings and Improvements	82,437,475	1,686,380	-	84,123,855
Equipment	5,554,864	1,059,408	(42,366)	6,571,906
Total Capital Assets, Being Depreciated	93,755,040	2,987,825	(42,366)	96,700,499
Accumulated Depreciation for				
Land Improvements	(1,717,464)	(270,491)	-	(1,987,955)
Buildings and Improvements	(36,305,190)	(1,945,253)	-	(38,250,443)
Equipment	(3,529,878)	(356,319)	42,366	(3,843,831)
Total Accumulated Depreciation	(41,552,532)	(2,572,063)	42,366	(44,082,229)
Total Capital Assets, Being Depreciated, Net	52,202,508	415,762	-	52,618,270
Governmental Activities Capital Assets, Net	<u>\$ 57,685,712</u>	<u>\$ 15,100,132</u>	<u>\$ (2,774,037)</u>	<u>\$ 70,011,807</u>



**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 3 CAPITAL ASSETS (CONTINUED)**

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

<b>Governmental Activities</b>	
Administration	\$ 1,853
District Support Services	4,177
Regular Instruction	2,352,569
Vocational Education Instruction	1,117
Special Education Instruction	4,805
Instructional Support Services	38,209
Pupil Support Services	43,588
Sites and Buildings	59,561
Food Service	58,119
Community Service	8,065
Total Depreciation Expense, Governmental Activities	<u>\$ 2,572,063</u>

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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
1/12/2006	3.75% - 4.20%	\$ 6,000,000	2/1/2026	\$ 3,885,000	\$ 3,885,000
8/7/2008	3.00% - 4.70%	33,350,000	2/1/2029	1,670,000	25,835,000
8/27/2009	1.75% - 5.40%	11,960,000	2/1/2024	680,000	7,020,000
9/15/2009	2.00% - 3.50%	4,060,000	2/1/2021	395,000	2,610,000
2/19/2014	4.00%	69,500,000	2/1/2034	3,600,000	65,825,000
1/22/2015	0.65% - 2.50%	3,680,000	2/1/2026	-	3,680,000
Total General Obligation Bonds				10,230,000	108,855,000
Bond Premium				233,282	4,169,300
Bond Discounts				(8,296)	(71,207)
Capital Leases Payable				149,196	1,186,472
Net Pension Liability				-	48,173,072
Severance and Wellness Benefits Payable				242,000	4,969,299
Compensated Absences Payable				428,800	504,470
				<u>\$ 11,274,982</u>	<u>\$ 167,786,406</u>

**B. Minimum Debt Payments**

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

Year Ending June 30	General Obligation Bonds Payable	
	Principal	Interest
2016	\$ 10,230,000	\$ 4,401,954
2017	5,165,000	3,989,130
2018	5,395,000	3,795,093
2019	5,640,000	3,586,619
2020	5,905,000	3,365,159
2021 - 2025	29,010,000	13,243,476
2026 - 2030	27,510,000	7,452,620
2031 - 2034	20,000,000	2,000,000
	<u>\$ 108,855,000</u>	<u>\$ 41,834,051</u>

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**C. Description of Long-Term Liabilities**

**General Obligation School Building Bonds, Series 2006A**

On January 12, 2006 the District issued \$6,000,000 of General Obligation School Building Bonds, Series 2006A. The proceeds of the issue were used to finance the betterment of various school sites and facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

**General Obligation School Building 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.

**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 will be used to refund the General Obligation School Building Bonds, Series 2006A, which are callable in February 2016. The new issue was issued at a premium of \$65,626. The refunding resulted in an economic savings of \$321,399 for the District, with a present value savings of \$286,725. 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.

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

**C. Description of Long-Term Liabilities (Continued)**

**Capital Lease Payable (Continued)**

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.

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 January 2011, the District entered into a lease with Riverbend Leasing for copiers. In August 2012, the District entered into a lease with Riverbend Leasing for nine copiers. The leases are due in monthly payments through January 2016 and July 2017, respectively.

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 \$480,302, 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, 2015:

Year Ending June 30,		
2016	\$	209,414
2017		188,589
2018		109,239
2019		106,404
2020		106,404
2021 - 2025		532,020
2026 - 2028		274,876
Total Minimum Lease Payments		1,526,946
Less Amounts Representing Interest		
Present Value of Net Minimum		340,474
Lease Payments	\$	1,186,472

**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 30<sup>th</sup>, certain employee groups may carry forward up to one year of unpaid vacation. At June 30, 2015, unpaid vacation totaling \$504,470 is recorded in the Statement of Net Position. Vacation benefits have been paid by the General and Special Revenue Funds.

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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, 2014, As Restated	Net Additions	Retirements	June 30, 2015
Bonds Payable	\$ 112,490,000	\$ 3,680,000	\$ 7,315,000	\$ 108,855,000
Bond Premium	4,333,476	65,626	229,802	4,169,300
Bond Discounts	(79,503)	-	(8,296)	(71,207)
Capital Leases Payable	1,328,706	-	142,234	1,186,472
Net Pension Liability	58,352,494	-	10,179,422	48,173,072
Severance and Wellness Benefits Payable	5,213,633	261,417	505,751	4,969,299
Compensated Absences Payable	475,827	601,555	572,912	504,470
	<u>\$ 182,114,633</u>	<u>\$ 4,608,598</u>	<u>\$ 18,936,825</u>	<u>\$ 167,786,406</u>

**E. Subsequent Event**

**General Obligation School Building Bonds, Series 2015B**

On October 5, 2015, the Board approved the issuance of \$6,140,000 of General Obligation Crossover Refunding Bonds, Series 2015B. The proceeds of the issue will be used to partially refund the General Obligation School Building Bonds, Series 2008A.

**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, 2015 was \$775,536. Some of these operating leases are funded through the lease levy.

Minimum rental commitments on leases in effect at June 30, 2015 are as follows:

Year Ending June 30,	
2016	\$ 705,348
2017	656,370
2018	627,863
2019	490,995
2020	312,255
	<u>\$ 2,792,831</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.

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**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 PENSION PLANS**

**A. Plan Description**

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

1. General Employees Retirement Plan (GERF)

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

2. Teachers Retirement Fund (TRA)

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

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**NOTE 7 PENSION PLANS (CONTINUED)**

**A. Plan Description (Continued)**

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 cities of Duluth and 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.

**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.



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**NOTE 7 PENSION PLANS (CONTINUED)**

**B. Benefits Provided (Continued)**

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

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.

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**NOTE 7 PENSION PLANS (CONTINUED)**

**B. Benefits Provided (Continued)**

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.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2015, were \$920,485. 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, 2014		Ending June 30, 2015	
	Employee	Employer	Employee	Employer
Basic	10.5 %	11.0 %	11.0 %	11.5 %
Coordinated	7.0	7.0	7.5	7.5

The District's contributions to TRA for the plan's fiscal year ended June 30, 2015, were \$2,941,663. The District's contributions were equal to the required contributions for each year as set by state statute.

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**NOTE 7 PENSION PLANS (CONTINUED)**

**D. Pension Costs**

1. GERF Pension Costs

At June 30, 2015, the District reported a liability of \$10,968,660 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.2335%.

For the year ended June 30, 2015, the District recognized pension expense of \$814,260 for its proportionate share of GERF's pension expense.

1. GERF Pension Costs (Continued)

At June 30, 2015, 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	\$ 168,335	\$ -
Changes in Actuarial Assumptions	1,130,430	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	2,963,722
District Contributions Subsequent to the Measurement Date	920,485	-
Total	<u>\$ 2,219,250</u>	<u>\$ 2,963,722</u>

Of the resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$920,485 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. 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
2016	\$ (308,009)
2017	(308,009)
2018	(308,009)
2019	(740,930)

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**NOTE 7 PENSION PLANS (CONTINUED)**

**D. Pension Costs (Continued)**

2. TRA Pension Costs

At June 30, 2015, the District reported a liability of \$37,204,411 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2014, 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 0.8074% at the end of the measurement period and 0.7956% for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the District were as follows:

**TRA Pension Costs**

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 37,204,411
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	2,617,282

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, 2015, the District recognized pension expense of \$1,970,750. It also recognized \$114,173 as pension expense for the support provided by direct aid.

At June 30, 2015, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 3,174,545	\$ -
Net Difference Between Projected and Actual Investment Earnings	-	11,696,691
Changes in Proportion and Differences Between Contributions Made and the District's Proportionate Share of Contributions	695,263	-
District Contributions Subsequent to the Measurement Date	2,941,663	-
Total	<u>\$ 6,811,471</u>	<u>\$ 11,696,691</u>

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**NOTE 7 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, \$2,941,663 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2016	\$ (2,116,279)
2017	(2,116,279)
2018	(2,116,279)
2019	(2,116,279)
2020	638,233

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.75% per Year	3.50%
Active Member Payroll Growth	3.50% per Year	3.75% Based on Years of Service
Investment Rate of Return	7.90%	8.25%

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.

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies. The actuarial assumptions used in the June 30, 2014, 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 GERF occurred in 2014: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

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.

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**NOTE 7 PENSION PLANS (CONTINUED)**

**E. Actuarial Assumptions (Continued)**

The long-term expected rate of return on pension plan investments is 7.9% for GERP and 8.25% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.9% for GERP and 8.25% 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.

**G. Pension Liability Sensitivity**

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
District's Proportionate Share of the GERP Net Pension Liability	\$ 17,681,923	\$ 10,968,660	\$ 5,445,225
<u>TRA Discount Rate</u>	7.25%	8.25%	9.25%
District's Proportionate Share of the TRA Net Pension Liability	\$ 61,486,150	\$ 37,204,411	\$ 16,961,835

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**NOTE 7 PENSION PLANS (CONTINUED)**

**H. Pension Plan Fiduciary Net Position**

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

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

**I. 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, 2015, 2014, and 2013 are \$607,778, \$566,793, and \$541,207, respectively. The related employee contributions were \$1,414,785, \$1,315,006, and \$1,267,635, for the years ended June 30, 2015, 2014, and 2013, respectively.

**NOTE 8 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 2015, total contributions to the plan were \$358,888.

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**NOTE 8 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 thirty 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	\$ 1,175,773
Interest on Net OPEB Obligation	(362,221)
Adjustment to Annual Required Contribution	461,690
Annual OPEB Cost (Expense)	<u>1,275,242</u>
Contributions Made	<u>(358,888)</u>
Decrease in Net OPEB Asset	916,354
Net OPEB Asset - Beginning of Year	<u>(6,760,592)</u>
Net OPEB Asset - End of Year	<u><u>\$ (5,844,238)</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB asset for 2015, and the two preceding years is:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2015	\$ 1,275,242	28.1%	\$ (5,844,238)
6/30/2014	1,191,193	25.4%	(6,760,592)
6/30/2013	1,343,308	26.1%	(7,648,845)

**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, 2015**

**NOTE 8 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, 2015 does not exceed 30 years.

**NOTE 9 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>
Special Revenue Funds			
Food Service Fund	\$ 3,974,841	\$ 4,100,234	\$ 125,393
Community Service Fund	5,494,729	5,535,162	40,433

These additional expenditures were paid for with available fund balance.

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 10 SELF-INSURED DENTAL PLAN**

The District has elected to self-insure their 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 \$533,005 for the year ended June 30, 2015.

The liability for unpaid claims included in the Internal Service Fund as claims payable for 2015 and the preceding year were:

	June 30, 2015	June 30, 2014
Beginning of Year Liability - July 1	\$ 292,169	\$ 279,238
Incurred Claims	480,975	466,080
Claims Payments	(476,469)	(453,149)
End of Year Liability - June 30	\$ 296,675	\$ 292,169

**NOTE 11 RISK MANAGEMENT**

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

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

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 12 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, 2015 the District had entered in various construction contracts for the construction and betterment of school facilities. Total remaining commitments under these contracts were \$33,976,067.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT 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
6/30/2015	\$ 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  
JUNE 30, 2015**

<b>Fiscal Year</b>	<u><b>2015</b></u>
Measurement Date	June 30, 2014
 <b>PERA</b>	
District's Proportion of the Net Pension Liability (Asset)	0.234%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 10,968,660
District's Covered-Employee Payroll	\$ 12,254,986
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	89.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.70%
 <b>TRA</b>	
District's Proportion of the Net Pension Liability (Asset)	0.807%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 37,204,411
State's Proportionate Share of the Net Pension Liability Associated with District	<u>2,617,282</u>
Total	\$ 39,821,693
District's Covered-Employee Payroll	\$ 36,857,686
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	100.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.50%



**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
JUNE 30, 2015  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

**Schedule of District Contributions**

	<u>2015</u>	<u>2014</u>
<b>PERA</b>		
Contractually Required Contribution	\$ 920,485	\$ 888,582
Contributions in Relation to the Contractually Required Contribution	<u>(920,485)</u>	<u>(888,582)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 12,455,641	\$ 12,254,986
Contributions as a Percentage of Covered Employee Payroll	7.39%	7.25%
<b>TRA</b>		
Contractually Required Contribution	\$ 2,941,663	\$ 2,580,038
Contributions in Relation to the Contractually Required Contribution	<u>(2,941,663)</u>	<u>(2,580,038)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 39,233,185	\$ 36,857,686
Contributions as a Percentage of Covered Employee Payroll	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, 2015**

	Fund Equities		Other Financing Sources		Transfers	Total
	June 30, 2014	Revenues	Expenditures	(Uses)		
<b>GOVERNMENTAL FUNDS</b>						
General Fund						
Nonspendable	\$ 10,936	\$ -	\$ -	\$ -	\$ (10,936)	\$ -
Restricted for Staff Development	220,195	994,068	961,184	-	-	253,079
Restricted for Health and Safety	(245,638)	379,338	716,533	-	-	(582,833)
Restricted for Deferred Maintenance	380,632	544,212	662,509	-	-	262,335
Restricted for Operating Capital	2,359,920	3,293,968	3,501,565	-	-	2,152,323
Restricted for Learning and Development	1,123,160	1,890,989	1,914,822	-	-	1,099,327
Restricted for Gifted and Talented	-	110,812	214,006	-	103,194	-
Restricted for Teacher Development and Evaluation	-	182,076	33,156	-	-	148,920
Restricted for Basic Skills	860,211	3,960,370	4,134,854	-	-	685,727
Restricted for Career and Tech. Programs	-	202,704	758,819	-	556,115	-
Restricted for Safe Schools - Crime	-	305,632	305,632	-	-	-
Assigned for Severance	690,000	-	-	-	-	690,000
Unassigned, As Restated	9,516,309	71,303,012	69,575,781	-	(648,373)	10,595,167
<b>Total General Fund</b>	<b>14,915,725</b>	<b>83,167,181</b>	<b>82,778,861</b>	<b>-</b>	<b>-</b>	<b>15,304,045</b>
Food Service Fund						
Nonspendable	62,123	-	-	-	(19,247)	42,876
Restricted for Other Purposes	1,189,576	3,916,099	4,100,234	-	19,247	1,024,688
<b>Total Food Service Fund</b>	<b>1,251,699</b>	<b>3,916,099</b>	<b>4,100,234</b>	<b>-</b>	<b>-</b>	<b>1,067,564</b>
Community Service Fund						
Restricted for Community Education	663,238	3,526,318	3,335,689	-	-	853,867
Restricted for E.C.F.E.	315,104	619,406	524,430	-	-	410,080
Restricted for School Readiness	56,407	213,481	162,467	-	-	107,421
Restricted for Adult Basic Education	103,859	1,062,326	1,120,307	-	-	45,878
Restricted for Other Purposes	-	392,269	392,269	-	-	-
<b>Total Community Service Fund</b>	<b>1,138,608</b>	<b>5,813,800</b>	<b>5,535,162</b>	<b>-</b>	<b>-</b>	<b>1,417,246</b>
Capital Projects Fund						
Nonspendable	-	-	-	-	57,397	57,397
Restricted for Other Purposes	67,460,504	309,993	13,462,482	-	(57,397)	54,250,618
<b>Total Capital Projects Fund</b>	<b>67,460,504</b>	<b>309,993</b>	<b>13,462,482</b>	<b>-</b>	<b>-</b>	<b>54,308,015</b>
Debt Service Fund						
Restricted for Bond Refundings	-	7,842	77,905	3,745,626	-	3,675,563
Restricted for Other Purposes	6,415,129	6,959,796	10,167,081	-	-	3,207,844
<b>Total Debt Service Fund</b>	<b>6,415,129</b>	<b>6,967,638</b>	<b>10,244,986</b>	<b>3,745,626</b>	<b>-</b>	<b>6,883,407</b>
OPEB Debt Service Fund						
Restricted for Other Purposes	304,719	1,796,570	1,760,079	-	-	341,210
<b>Total OPEB Debt Service Fund</b>	<b>304,719</b>	<b>1,796,570</b>	<b>1,760,079</b>	<b>-</b>	<b>-</b>	<b>341,210</b>
<b>TOTAL GOVERNMENTAL FUNDS</b>	<b>91,486,384</b>	<b>101,971,281</b>	<b>117,881,804</b>	<b>3,745,626</b>	<b>-</b>	<b>79,321,487</b>
<b>FIDUCIARY FUNDS</b>						
Trust Fund						
Restricted for Scholarships and Other Purposes	132,212	13,750	34,536	-	-	111,426
<b>Total Trust Fund</b>	<b>132,212</b>	<b>13,750</b>	<b>34,536</b>	<b>-</b>	<b>-</b>	<b>111,426</b>
OPEB Trust Fund						
Restricted for Payment of OPEB Benefits	13,969,779	389,182	925,350	-	-	13,433,611
<b>Total OPEB Trust Fund</b>	<b>13,969,779</b>	<b>389,182</b>	<b>925,350</b>	<b>-</b>	<b>-</b>	<b>13,433,611</b>
<b>TOTAL FIDUCIARY FUNDS</b>	<b>14,101,991</b>	<b>402,932</b>	<b>959,886</b>	<b>-</b>	<b>-</b>	<b>13,545,037</b>
<b>PROPRIETARY FUNDS</b>						
Internal Service Fund						
Unrestricted	27,791	553,398	533,005	-	-	48,184
<b>Total Internal Service Fund</b>	<b>27,791</b>	<b>553,398</b>	<b>533,005</b>	<b>-</b>	<b>-</b>	<b>48,184</b>
<b>TOTAL PROPRIETARY FUNDS</b>	<b>27,791</b>	<b>553,398</b>	<b>533,005</b>	<b>-</b>	<b>-</b>	<b>48,184</b>
<b>GRAND TOTAL</b>	<b>\$ 105,616,166</b>	<b>\$ 102,927,611</b>	<b>\$ 119,374,695</b>	<b>\$ 3,745,626</b>	<b>\$ -</b>	<b>\$ 92,914,708</b>

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**SINGLE AUDIT AND OTHER REQUIRED REPORTS**

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**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2015**

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	\$ 182,517
Total Non-Cash Assistance			\$ 182,517
Cash Assistance:			
School Breakfast Program	a 10.553	1-077-000	323,339
National School Lunch Program	a 10.555	1-077-000	1,421,747
National School Lunch Program - Commodity Cash Rebate	a 10.555	1-077-000	63,041
After School Snack	a 10.555	1-077-000	6,602
Special Milk Program for Children	a 10.556	1-077-000	3,669
Summer Food Service Program for Children	a 10.559	1-077-000	183,323
Total Cash Assistance			<u>2,001,721</u>
Total U.S. Department of Agriculture			<u>2,184,238</u>
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Adult Basic Education State Grant Program	84.002	**	113,801
ABE EL - Civics Competitive Allocation	84.002A	**	39,995
Title I, Part A - Grants to Local Educational Agencies	84.010	**	1,065,332
Special Education Grants to States	b 84.027	**	1,562,552
Special Education Preschool Grants	b 84.173	**	56,202
Special Education Grants for Infants and Families with Disabilities	c 84.181	**	63,248
Title II, Part D - Educational Technology State Grants	84.367	**	212,951
Title III, Part A - English Language Acquisition Grants	84.365	**	59,009
Race to the Top - Early Learning Challenge	84.412	**	63,782
Total Passed Through Minnesota Department of Education			<u>3,236,872</u>
Pass-Through South Central Service Cooperative			
IDEA Part C - Regional IEIC Grant for Children ages 0-2	c 84.181A	**	3,514
Career and Technical Education - Basic Grants to States	84.048	**	20,000
Total Passed Through South Central Service Cooperative			23,514
Pass-Through South Central College			
Career and Technical Education - Basic Grants to States	84.048	**	20,500
Total Passed Through South Central College			<u>20,500</u>
Total U.S. Department of Education			3,280,886
U.S. Department of Labor			
Pass-Through South Central Workforce Council			
Incentive Grants - WIA Section 503	17.267	**	37,265
Total U.S. Department of Labor			37,265
U.S. Department of Transportation			
Pass-Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	**	16,461
Total U.S. Department of Transportation			16,461
U.S. Department of Homeland Security			
Pass-Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	**	39,603
Total U.S. Department of Homeland Security			<u>39,603</u>
Total Federal Financial Assistance Expended			<u>\$ 5,558,453</u>

- a Programs are Clustered - Child Nutrition Cluster  
b Programs are Clustered - Special Education Cluster  
c Programs are Clustered - Early Intervention Cluster  
\*\* 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, 2015**

**A. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District No. 77. The reporting entity is defined in Note 1 of the District's financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

**B. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 of the financial statements.



**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, 2015, and the related notes to the financial statements, which collectively comprise Independent School District No. 77's basic financial statements, and have issued our report thereon dated October 21, 2015.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs listed as 2015-001 to be a material weakness.

**Compliance and Other Matters**

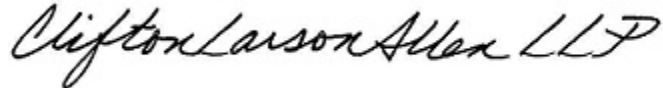
As part of obtaining reasonable assurance about whether Independent School District No. 77's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have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

**Independent School District No. 77's Response to Finding**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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  
October 21, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-002 through 2015-004. Our opinion on each major federal program is not modified with respect to these matters.

Independent School District No. 77's responses to the noncompliance 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.

**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 OMB Circular A-133, 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.

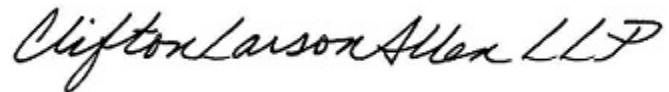
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses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

*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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-002 through 2015-004 to be material weaknesses.

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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

**CliftonLarsonAllen LLP**

Austin, Minnesota  
October 21, 2015

## 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, 2015, and the related notes to the financial statements and have issued our report thereon dated October 21, 2015.

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  
October 21, 2015



**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

**Part I: Summary of Independent Auditors' Results**

Financial Statements

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

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified?     x     yes            no
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?            yes     x     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 section 510(a) of OMB Circular A-133?     x     yes            no

***Identification of Major Federal Programs***

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
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: \$     300,000    

Auditee qualified as low-risk auditee pursuant to OMB Circular A-133?            yes     x     no

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

**Part II: Findings Related to the General Purpose Financial Statements**

**FINDING: 2015-001 MATERIAL AUDIT ADJUSTMENTS**

- Condition:** The audit firm proposed, and the District posted to its general ledger accounts, certain journal entries to correct misstatements. In addition, prior year fund balance for one major fund had to be restated to correct overstated expenditures reported in fiscal year 2014.
- Criteria:** District management is responsible for establishing and maintaining internal controls for the proper recording of all of the District's transaction activity in the appropriate period.
- Effect:** The potential exists that the financial statements could be materially misstated and go undetected and uncorrected.
- Cause:** Not known.
- Recommendation:** We recommend the District continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances and transactions are recorded in the proper period in accordance with GAAP.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement With Audit Finding:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The District will review prior year journal entries to determine training needs with the intent to perform all journal entries prior to the subsequent year's audit.

**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 June 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, 2015**

**Part III: Federal Awards Findings and Questioned Costs**

**FINDING: 2015-002 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  
CONTROL AND COMPLIANCE OVER MONTHLY REPORTING**

- Condition:** Errors were noted in meal counts submitted to Minnesota Department of Education in two of four months tested at multiple sites.
- Criteria:** OMB Circular A-133 requires recipients of Federal funds to have appropriate internal controls to prevent, or detect and correct, any material noncompliance in a timely manner.
- Questioned Costs:** \$2
- Context:** Four of sixty-one sites (over four month period selected for testing) had errors in meal counts reported. The errors involved both over and under reported meals. A majority of the errors noted were in September 2014.
- Effect:** The District reported an improper number of meals served by category or in total.
- Cause:** Not known.
- Recommendation:** The District should continue with training a knowledgeable individual to review and approve the monthly reimbursement requests prior to submission.

**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 hired a Nutrition and Wellness Specialist at the beginning of fiscal year 2015. The Nutrition and Wellness Specialist was new to reviewing and approving the meal counts submitted monthly in CLiCS. Improvements and training will be provided to strengthen the review process and prevent submission of future erroneous meal counts.

**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 October 31, 2015.

**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, 2015**

**FINDING: 2015-003 TITLE I, PART A – CFDA# 84.010  
ALL GRANT YEARS  
U.S. DEPARTMENT OF EDUCATION  
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION  
INTERNAL CONTROL AND COMPLIANCE WITH ALLOWABLE COSTS/  
ACTIVITIES**

- Condition:** Thirty disbursements paid with Title I federal funds were selected for testing. Of the disbursements tested, one payroll and one general disbursement were missing appropriate approval and time and effort documentation. One additional timesheet was incorrectly coded and paid with Title I grant funds.
- Criteria:** Standard internal control procedures recommend that reports be reviewed and verified by qualified personnel.
- Questioned Costs:** \$170
- Context:** Two of thirty Title I items selected for testing were missing appropriate approval. One of thirty items selected for testing was inappropriately paid with Title I grant funds.
- Effect:** The potential exists that unallowable costs are included in the Federal program expenditures.
- Cause:** Not known.
- Recommendation:** We recommend that all invoices, time sheets, time certifications, personnel activity reports, and pay distribution reconciliations be reviewed by an appropriate federal programs supervisor. 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 federal expenditures and revenues were reduced by the non-Title I timesheet initially paid with Title I funds. The District will implement the recommendation above. They are considering a new electronic time reporting system that would require proper electronic approval prior to processing of payroll payments.

**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 October 31, 2015.

**Plan to Monitor Completion of CAP:**

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

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

**FINDING: 2015-004 SPECIAL EDUCATION CLUSTER – CFDA# 84.027 & 84.173**

**ALL GRANT YEARS**

**U.S. DEPARTMENT OF EDUCATION**

**PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION**

**INTERNAL CONTROL AND COMPLIANCE OVER STUDENTS SERVED**

**Condition:** During our Single Audit testing, Special Education students are selected for testing from the District's Unduplicated Child Count report. Two students did not receive Special Education services for the current year, and should not have been included on the report. One additional student's Individualized Education Plan did not include all required information.

**Criteria:** Standard internal control procedures require that reports be reviewed and verified by qualified personnel.

**Questioned Costs:** None

**Context:** Two of forty Special Education students selected for testing did not receive Special Education services provided by the District, and should not have been included on the Unduplicated Child Count report. One of thirty-eight IEPs tested did not include all required information.

**Effect:** The potential exists that ineligible students could receive program services and/or required information regarding services provided are not documented in accordance with regulations.

**Cause:** Not known.

**Recommendation:** Review and verification procedures should be implemented to ensure that all Special Education students served, and only the students served, are included on Special Education reports. All Special Education student IEPs should be reviewed to ensure all required information is documented within the IEP.

**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 revisit the importance of accurate and meaningful review procedures for lists of students served by Special Education programs with applicable staff. The District will designate certain staff to review the Unduplicated Child Count report prior to December 1 to ensure only students currently receiving services are listed on the report. All IEPs will be reviewed by multiple staff and discussed with parents to ensure required information is documented and services provided are adequate.

**Official Responsible for Ensuring CAP:**

Stephanie White, Special Education Director, is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

The planned completion date is October 31, 2015.

**Plan to Monitor Completion of CAP:**

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

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

**Part 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, 2015**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2014-002	Child Nutrition Cluster – Control and Compliance over Monthly Reporting	Not Corrected	See current year finding 2015-002.
2014-003	Title I, Part A – Internal Control over Payroll	Not Corrected	See current year finding 2015-003.
2014-004	Special Education Cluster – Internal Control over Students Served	Not Corrected	See current year finding 2015-004.

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**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS  
COMPLIANCE TABLE  
YEAR ENDED JUNE 30, 2015**

<b>01 GENERAL FUND</b>	Audit	UFARS	Difference	<b>06 BUILDING CONSTRUCTION</b>	Audit	UFARS	Difference
Total Revenues	\$ 83,167,181	\$ 83,167,171	\$ 10	Total Revenues	\$ 309,993	\$ 309,993	\$ -
Total Expenditures	\$ 82,778,861	\$ 82,778,850	\$ 11	Total Expenditures	\$ 13,462,482	\$ 13,462,481	\$ 1
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	\$ -	\$ -	\$ -	460 Nonspendable	\$ 57,397	\$ 57,397	\$ -
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	\$ 253,079	\$ 253,079	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 262,335	\$ 262,335	\$ -	409 Alternative Fac. Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (582,833)	\$ (582,833)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	464 Other Purposes	\$ 54,250,618	\$ 54,250,619	\$ (1)
408 Cooperative Rev.	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
414 Operating Debt	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -				
423 Certain Teacher Programs	\$ -	\$ -	\$ -	<b>07 DEBT SERVICE</b>			
424 Operating Capital	\$ 2,152,323	\$ 2,152,323	\$ -	Total Revenues	\$ 6,967,638	\$ 6,967,637	\$ 1
426 \$25 Taconite	\$ -	\$ -	\$ -	Total Expenditures	\$ 10,244,986	\$ 10,244,986	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	<i>Restricted/Reserved:</i>			
428 Learning & Development	\$ 1,099,327	\$ 1,099,327	\$ -	425 Bond Refundings	\$ 3,675,563	\$ 3,675,563	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	464 Other Purposes	\$ 3,207,844	\$ 3,207,843	\$ 1
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
438 Gifted & Talented	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
440 Teacher Develop. and Eval.	\$ 148,920	\$ 148,920	\$ -				
441 Basic Skills	\$ 685,727	\$ 685,727	\$ -	<b>08 TRUST</b>			
445 Career and Tech, Programs	\$ -	\$ -	\$ -	Total Revenues	\$ 13,750	\$ 13,750	\$ -
448 Achievement and Integration	\$ -	\$ -	\$ -	Total Expenditures	\$ 34,536	\$ 34,536	\$ -
449 Safe Schools Levy	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
450 Pre-Kindergarten	\$ -	\$ -	\$ -	422 Unassigned	\$ 111,426	\$ 111,426	\$ -
451 QZAB Payments	\$ -	\$ -	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	<b>09 AGENCY</b>			
453 Unfunded Sev & Reiremt Levy	\$ -	\$ -	\$ -	<i>Unassigned: Should Always Be 0-</i>			
464 Other Purposes	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
<i>Committed:</i>							
418 Committed for Severance	\$ -	\$ -	\$ -	<b>20 INTERNAL SERVICE</b>			
461 Committed	\$ -	\$ -	\$ -	Total Revenues	\$ 553,398	\$ 553,397	\$ 1
<i>Assigned:</i>				Total Expenditures	\$ 533,005	\$ 533,005	\$ -
462 Assigned	\$ 690,000	\$ 690,000	\$ -	<i>Unassigned:</i>			
<i>Unassigned:</i>				422 Unassigned	\$ 48,184	\$ 48,183	\$ 1
422 Unassigned	\$ 10,595,167	\$ 10,595,167	\$ -				
<b>02 FOOD SERVICE</b>				<b>25 OPEB REVOCABLE TRUST</b>			
Total Revenues	\$ 3,916,099	\$ 3,916,099	\$ -	Total Revenues	\$ -	\$ -	\$ -
Total Expenditures	\$ 4,100,234	\$ 4,100,234	\$ -	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable	\$ 42,876	\$ 42,876	\$ -	422 Unassigned	\$ -	\$ -	\$ -
<i>Restricted:</i>							
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -	<b>45 OPEB IRREVOCABLE TRUST</b>			
464 Other Purposes	\$ 1,024,688	\$ 1,024,687	\$ 1	Total Revenues	\$ 389,182	\$ 389,183	\$ (1)
<i>Unassigned:</i>				Total Expenditures	\$ 925,350	\$ 925,350	\$ -
463 Unassigned	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
				422 Unassigned	\$ 13,433,611	\$ 13,433,611	\$ -
<b>04 COMMUNITY SERVICE</b>							
Total Revenues	\$ 5,813,800	\$ 5,813,800	\$ -	<b>47 OPEB DEBT SERVICE</b>			
Total Expenditures	\$ 5,535,162	\$ 5,535,160	\$ 2	Total Revenues	\$ 1,796,570	\$ 1,796,570	\$ -
<i>Nonspendable:</i>				Total Expenditures	\$ 1,760,079	\$ 1,760,079	\$ -
460 Nonspendable	\$ -	\$ -	\$ -	<i>Restricted:</i>			
<i>Restricted:</i>				464 Other Purposes	\$ 341,210	\$ 341,210	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
431 Community Education	\$ 853,867	\$ 853,867	\$ -	463 Unassigned	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ 410,080	\$ 410,081	\$ (1)				
440 Teacher Develop. and Eval.	\$ -	\$ -	\$ -				
444 School Readiness	\$ 107,421	\$ 107,422	\$ (1)				
447 Adult Basic Education	\$ 45,878	\$ 45,878	\$ -				
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ -	\$ -	\$ -				
<i>Unassigned:</i>							

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**STUDENT ACTIVITY FUNDS**

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## INDEPENDENT AUDITORS' REPORT

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

### ***Report on the Financial Statement***

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, 2015, 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 audit 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***

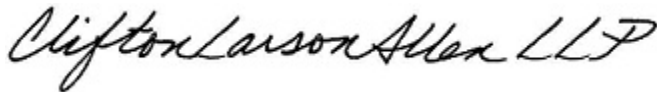
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 77 as of June, 30 2015, 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, 2015, 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  
October 21, 2015

**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, 2015**

	Balance 6/30/2014	Receipts	Disbursements & Transfers	Balance 6/30/2015
<b>WEST HIGH</b>				
Academic Athletic	\$ 773	\$ 846	\$ 929	\$ 690
AVID 11/12	250	210	448	12
Knowledge Bowl	101	690	484	307
Band	1,507	10,906	10,534	1,879
Boys Cross Country	422	1,763	1,158	1,027
Boys Soccer	2,777	-	558	2,219
Boys Swimming and Dive	398	-	-	398
Choir	9,468	4,238	3,619	10,087
Distributive Education Club of America	7,849	3,466	4,616	6,699
Drama Fund	26,153	12,943	12,125	26,971
Fashions NY	948	-	-	948
Football Fund	2,281	30,075	26,666	5,690
French Language	-	800	50	750
German Language	6,625	-	5,682	943
Girls Tennis	2,027	743	2,340	430
Girls Gymnastics	9	-	-	9
Girls Soccer	3,573	7,048	2,314	8,307
Girls Swimming and Dive	473	1,145	182	1,436
History Club	76	1,970	2,046	-
Hockey Clinic	9,890	18,950	20,405	8,435
Key Club	1,416	3,991	4,039	1,368
Language Club	466	-	357	109
National Honor Society	197	1,527	874	850
Orchesis	4,378	3,298	981	6,695
Orchestra	2,396	589	534	2,451
OTAK Projects	23,458	24,033	16,146	31,345
Photo/Art Field Trips	477	350	737	90
Prom Fund	3,451	7,105	6,094	4,462
Hall of Fame	975	1,940	1,959	956
Senior Class	25	776	744	57
Senior Science	2,780	1,585	4,365	-
Student Council	3,356	2,160	1,263	4,253
Summer Athletic Camp - Boys	-	1,800	-	1,800
Summer Athletic Camp - Girls	6,621	3,409	6,897	3,133
Valley Fair Fund	305	360	566	99
Volleyball	2,199	3,975	4,947	1,227
Washington DC Trip	1	-	-	1
West Connection	18	-	-	18
Wrestling	78	-	-	78
Yell Club	9	-	-	9
<b>TOTAL WEST HIGH</b>	<b>128,206</b>	<b>152,691</b>	<b>144,659</b>	<b>136,238</b>

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, 2015**

	Balance 6/30/2014	Receipts	Disbursements	Balance 6/30/2015
<b>EAST HIGH</b>				
Arboretum Project	\$ 4,505	\$ -	\$ -	\$ 4,505
Art Club	2,693	5,541	7,567	667
Astronomy Club	1,152	144	89	1,207
AVID Club	351	130	177	304
Band	149	11,672	5,358	6,463
Baseball Fund	3,986	12,947	5,583	11,350
Black 7 Team	1,646	1,391	1,390	1,647
Black 8 Team	1,833	1,332	1,081	2,084
Boys Basketball	3,423	11,325	11,985	2,763
Boys Cross Country	1,210	610	642	1,178
Boys Golf	1,562	2,045	3,607	-
Boys Hockey Fund	56	7,459	3,699	3,816
Boys Soccer	1,558	3,708	4,138	1,128
Boys Tennis	11	69	80	-
Boys and Girls Swim Fund	109	2,356	2,437	28
Choir	10,731	23,855	11,533	23,053
Climbing Wall	291	-	-	291
Dance Company	52	900	-	952
DECA Conference	98	-	-	98
Distributive Education Club of America	8,612	5,393	5,372	8,633
Drama Fund	5,803	9,553	12,298	3,058
Fashion Travel	552	-	-	552
Football	1,247	6,054	5,556	1,745
Future Homemakers of America	14	640	562	92
Girls Basketball	1,542	10,983	10,224	2,301
Girls Cross Country	419	412	712	119
Girls Golf	734	1,385	1,266	853
Girls Hockey	3,859	8,834	11,963	730
Girls Soccer	1,815	2,369	2,695	1,489
Girls Softball	2,273	4,880	3,854	3,299
Girls Swim	1,443	7,619	7,196	1,866
Girls Tennis	-	230	209	21
Gold 7 Team	1,755	1,357	1,217	1,895
Gold 8 Team	1,717	1,327	1,361	1,683
Gymnastics	614	1,819	1,677	756
GSA	-	50	50	-
Hall of Fame	61	-	-	61
Interest, Student Investment	-	8,067	8,067	-
Junior High Activity	2,991	793	335	3,449
Junior High Author Day	846	-	57	789

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, 2015**

	Balance 6/30/2014	Receipts	Disbursements	Balance 6/30/2015
<b>EAST HIGH (CONTINUED)</b>				
Junior High Choir	\$ 1,101	-	-	\$ 1,101
Junior High Project Right Start	2,551	840	572	2,819
Junior High Science Club	1,961	-	-	1,961
Junior High Student Council	3,034	2,040	2,757	2,317
Junior High Yearbook	3,317	921	2,283	1,955
Key Club	120	-	-	120
Knowledge Bowl	376	1,414	1,387	403
"M" Club	6,083	2,871	8,264	690
Math League	375	491	492	374
Media	81	87	120	48
National Honor Society	827	760	287	1,300
Orchestra	181	9,906	5,825	4,262
Outdoor Education	30	2,937	2,967	-
Photo Club	1,605	-	-	1,605
Physics	-	1,316	1,286	30
Prom Fund	2,770	11,205	11,784	2,191
Reading Rewards	39	-	39	-
SADD	988	-	-	988
Senior Class	390	660	716	334
Social Studies	156	-	-	156
Speech/Debate	1,952	3,881	2,680	3,153
SPIRIT	17,090	20,596	12,614	25,072
Student Council	949	2,652	2,803	798
Table Tennis	246	-	-	246
Track and Field	250	442	666	26
VEX Robotics	13	15,259	10,447	4,825
Volleyball	114	5,568	2,051	3,631
World Language Club	431	6,456	5,341	1,546
Wrestling Fund	4,282	888	2,352	2,818
XYZ Club	70	-	-	70
Youth Services	93	-	25	68
<b>TOTAL EAST HIGH</b>	<u>123,188</u>	<u>248,439</u>	<u>211,795</u>	<u>159,832</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, 2015**

	Balance 6/30/2014	Receipts	Disbursements	Balance 6/30/2015
<b>OTHER</b>				
Adult Education Store	\$ 422	\$ 6,912	\$ 5,949	\$ 1,385
Bridges	98	-	-	98
Central High School Store	1,615	2,830	3,394	1,051
Dakota Meadows Student Recognition	4,709	1,673	25	6,357
Dakota Meadows Diversity Program	202	-	-	202
Dakota Meadows Author Day	651	-	-	651
Dakota Meadows Band	134	637	612	159
Dakota Meadows Choir Fund	600	-	-	600
Dakota Meadows Courage Retreat	17	-	-	17
Dakota Meadows Drama Club	405	-	-	405
Dakota Meadows Kasota Trail	590	2,627	2,592	625
Dakota Meadows Mankato Trail	948	3,042	2,888	1,102
Dakota Meadows Minneopa Trail	1,201	-	800	401
Dakota Meadows Orchestra	10	-	-	10
Dakota Meadows Sakatah Trail	879	-	248	631
Dakota Meadows Science Club	-	1,000	-	1,000
Dakota Meadows Seventh Grade Transition	1,481	1,582	1,151	1,912
Dakota Meadows Student Council	2,394	930	1,951	1,373
Dakota Meadows Student Funds	8,129	1,029	652	8,506
Dakota Meadows Yearbook	4,679	4,508	3,694	5,493
Day Treatment	500	-	-	500
Debate	4,895	1,850	1,035	5,710
District Science Boards	-	874	874	-
Eagle Lake Elementary	7,458	2,524	500	9,482
Elementary Child	3,752	500	1,343	2,909
Franklin Student Council	2,231	750	348	2,633
Garfield Student Council	1,349	5,447	5,636	1,160
Guthrie District Transportation	-	13,456	12,631	825
Hard of Hearing	2,118	2,850	3,355	1,613
Hoover Student Council	628	1,338	1,440	526
HOSA	3,583	4,504	3,543	4,544
Jefferson Elementary	462	954	546	870
Monroe Student Council	118	-	-	118
Roosevelt Student Council	394	1,639	1,379	654
State Capital Trips	2,289	9,719	2,513	9,495
Washington PE	234	-	-	234
Washington Student Council	409	-	-	409
<b>TOTAL OTHER</b>	<u>59,584</u>	<u>73,175</u>	<u>59,099</u>	<u>73,660</u>
<b>GRAND TOTAL</b>	<u>\$ 310,978</u>	<u>\$ 474,305</u>	<u>\$ 415,553</u>	<u>\$ 369,730</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, 2015**

**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, 2015, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated October 21, 2015. 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 item 2015-005. 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 response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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

**CliftonLarsonAllen LLP**

Austin, Minnesota  
October 21, 2015

**MANKATO PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 77  
SCHEDULE OF FINDINGS AND RESPONSES –  
STUDENT ACTIVITY FUNDS  
JUNE 30, 2015**

**Finding: 2015-005 MINNESOTA LEGAL COMPLIANCE – STUDENT DISBURSEMENT APPROVAL**

The *Manual for Activity Fund Accounting* states that all check requests must be signed by the activity advisor and a student representing the activity. Four of twenty-five 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 October 31, 2015.

**Plan to Monitor Completion of CAP:**

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