

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2014**

INTRODUCTORY SECTION

BOARD OF EDUCATION AND ADMINISTRATION	1
--	----------

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

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

BALANCE SHEET – GOVERNMENTAL FUNDS	18
---	-----------

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	20
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	21
---	-----------

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	23
--	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND	24
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – FOOD SERVICE FUND	25
--	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	26
---	-----------

STATEMENT OF NET POSITION – PROPRIETARY FUND	27
---	-----------

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUND	28
---	-----------

STATEMENT OF CASH FLOWS – PROPRIETARY FUND	29
---	-----------

STATEMENT OF FIDUCIARY NET POSITION	30
--	-----------

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	30
---	-----------

NOTES TO FINANCIAL STATEMENTS	31
--------------------------------------	-----------

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN	56
SCHEDULE OF EMPLOYER CONTRIBUTIONS	56

SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN FUND EQUITIES	57
---	-----------

SINGLE AUDIT AND OTHER REQUIRED REPORTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	58
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	59

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	60
--	-----------

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	62
--	-----------

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	65
---	-----------

SCHEDULE OF FINDINGS AND QUESTIONED COSTS	66
--	-----------

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS	72
---	-----------

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	73
--	-----------

STUDENT ACTIVITY FUNDS

INDEPENDENT AUDITORS' REPORT	74
-------------------------------------	-----------

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS	76
---	-----------

NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS	80
---	-----------

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE MANUAL FOR ACTIVITY FUND ACCOUNTING	81
--	-----------

SCHEDULE OF FINDINGS AND RESPONSES – STUDENT ACTIVITY FUNDS	82
--	-----------

INTRODUCTORY SECTION

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2014**

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

(This page intentionally left blank)

FINANCIAL SECTION

(This page intentionally left blank)

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, 2014, 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, 2014, 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 Regarding the Correction of an Error

As described in Note 1 to the financial statements, the District has restated its July 1, 2013 beginning fund balance for the Food Service Fund and net position for the Governmental Activities. These restatements are due to an overstatement of revenue in both opinion units. Our opinion is unmodified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Independent School District No. 77's 2013 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 7, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 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, and the Schedule of Employer 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.

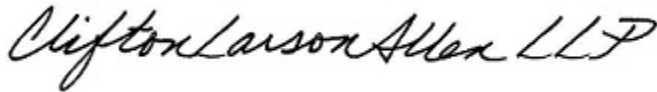
Other Information

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 4, 2014 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 4, 2014

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2013-2014 fiscal year include the following:

- The District successfully passed a \$69.5 million dollar bond referendum to build a new middle school, add a sixth grade wing to Dakota Meadows Middle School, renovate West High School's cafeteria, and remodel Garfield Elementary and East High School.
- Food Service Fund Balance increased from a restated balance of \$1,178,778 on June 30, 2013 to \$1,251,699 on June 30, 2014.
- The Community Service Fund Balance increased from \$1,052,590 on June 30, 2013 to \$1,138,608 on June 30, 2014.

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, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was \$30,720,684 on June 30, 2014.

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

	Governmental Activities		Percentage Change
	2014	2013	
Current and Other Assets	\$ 124,975,721	\$ 45,863,599	172.49%
Capital and Non-Current Assets	57,685,712	57,440,668	0.43%
Total Assets	182,661,433	103,304,267	76.82%
Current Liabilities	17,013,693	12,201,462	39.44%
Long-Term Liabilities	115,581,432	49,822,886	131.98%
Total Liabilities	132,595,125	62,024,348	113.78%
Deferred Inflows of Resources	19,345,624	11,517,731	67.96%
Net Position			
Net Investment in Capital Assets	26,022,900	25,342,087	2.69%
Restricted	12,366,536	8,904,681	38.88%
Unrestricted	(7,668,752)	(4,484,580)	71.00%
Total Net Position	\$ 30,720,684	\$ 29,762,188	3.22%

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

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

	Governmental Activities for the fiscal year ended June 30,		Total % Change
	2014	2013	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 5,100,172	\$ 4,811,446	6.00%
Operating Grants and Contributions	24,189,693	23,107,688	4.68%
Capital Grants and Contributions	814,043	834,782	-2.48%
<u>General Revenues</u>			
Property Taxes	12,736,475	18,310,255	-30.44%
Unrestricted State Aid	49,823,593	43,327,309	14.99%
Investment Earnings	217,036	8,389	2487.15%
Other	95,367	139,945	-31.85%
Total Revenues	<u>92,976,379</u>	<u>90,539,814</u>	
Expenses			
Administration	2,856,356	2,725,472	4.80%
District Support Services	1,361,145	1,283,978	6.01%
Regular Instruction	40,580,251	39,100,487	3.78%
Vocational Education Instruction	963,032	920,334	4.64%
Special Education Instruction	15,993,552	15,711,734	1.79%
Instructional Support Services	5,812,482	4,891,759	18.82%
Pupil Support Services	5,249,398	4,890,757	7.33%
Sites and Buildings	7,195,225	6,847,355	5.08%
Fiscal and Other Fixed Cost Programs	209,993	217,058	-3.25%
Food Service	3,628,051	3,521,812	3.02%
Community Service	5,135,249	4,854,277	5.79%
Interest and Fiscal Charges on Long-Term Liabilities	2,955,036	2,052,813	43.95%
Total Expenses	<u>91,939,770</u>	<u>87,017,836</u>	5.66%
Increase in Net Position	1,036,609	3,521,978	
Beginning Net Position, As Previously Stated	29,762,188	26,240,210	
Prior Period Adjustment	(78,113)	-	
Beginning Net Assets, As Retated	<u>29,684,075</u>	<u>26,240,210</u>	
Ending Net Position	<u>\$ 30,720,684</u>	<u>\$ 29,762,188</u>	

Changes in Net Position

The District's total revenues were \$92,976,379 for the year ended June 30, 2014. Unrestricted state aid accounted for 54%, property taxes accounted for 14%, operating and capital grants accounted for 27%, charges for services 5%. (See Figure A-1).

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$91,939,770. Direct instruction related costs accounted for 63%, 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 3% of the total. (See Figure A-2)

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

Figure A-1 Sources of District's Revenues for Fiscal 2014

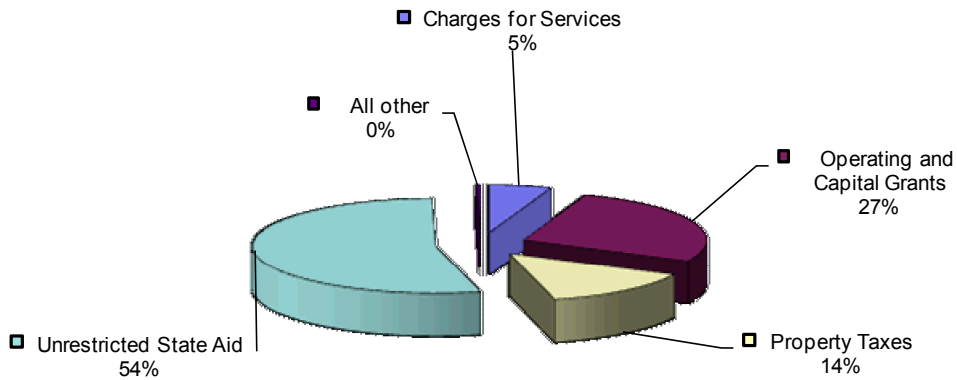
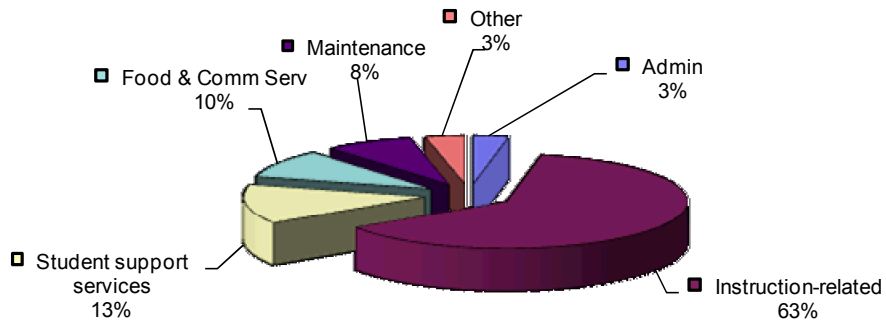


Figure A-2 District Expenses for Fiscal 2014



**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
Administration	\$ 2,856,356	\$ 2,725,472	4.80%	\$ 2,855,914	\$ 2,724,792	4.81%
District Support Services	1,361,145	1,283,978	6.01%	1,347,372	1,262,865	6.69%
Regular Instruction	40,580,251	39,100,487	3.78%	31,773,720	30,527,713	4.08%
Vocational Education Instruction	963,032	920,334	4.64%	911,673	878,834	3.74%
Special Education Instruction	15,993,552	15,711,734	1.79%	3,824,474	4,174,581	-8.39%
Instructional Support Services	5,812,482	4,891,759	18.82%	5,566,363	4,619,239	20.50%
Pupil Support Services	5,249,398	4,890,757	7.33%	5,051,637	4,697,397	7.54%
Sites and Buildings	7,195,225	6,847,355	5.08%	6,630,016	6,389,110	3.77%
Fiscal and Other Fixed Cost Programs	209,993	217,058	-3.25%	209,993	217,058	-3.25%
Food Service	3,628,051	3,521,812	3.02%	(87,280)	(186,765)	-53.27%
Community Service	5,135,249	4,854,277	5.79%	796,944	906,283	-12.06%
Interest and Fiscal Charges on Long-Term Liabilities	2,955,036	2,052,813	43.95%	2,955,036	2,052,813	43.95%
Total	<u>\$ 91,939,770</u>	<u>\$ 87,017,836</u>	5.66%	<u>\$ 61,835,862</u>	<u>\$ 58,263,920</u>	6.13%

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 increased by \$71,101,679 for the year ended June 30, 2014. This is primarily a result of the sale of bonds for the construction of a new middle school and betterment of various school sites and facilities.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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)**

Grade	2010	2011	2012	2013	2014
EC	118	121	117	115	111
HK	113	99	104	90	100
Kdgt.	509	513	529	593	590
1-3	1,747	1,780	1,815	1,842	1,892
4-6	1,609	1,695	1,704	1,711	1,707
7-12	3,093	3,166	3,210	3,223	3,245
Total K-12 ADM	7,189	7,374	7,479	7,574	7,645
ADM Change	N/A	185	105	95	71
Percent Change	N/A	2.6%	1.4%	1.3%	0.9%

As depicted in Table A-4, average daily membership has increased steadily over the last five years. Certain elementary school sites are encountering space shortages which prompted the District to propose and pass a bond referendum in 2013 for the construction and betterment of various school sites and facilities. A brief description of the construction projects and the construction schedule can be found on the District's website at www.isd77.org.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Local Sources				
Property Taxes	\$ 6,802,946	\$ 10,991,538	\$ (4,188,592)	-38.1%
Earnings on Investments	6,141	5,312	829	15.6%
Other	1,759,721	1,929,088	(169,367)	-8.8%
State Sources	66,747,218	59,586,761	7,160,457	12.0%
Federal Sources	2,991,805	2,906,966	84,839	2.9%
Total General Fund Revenue	<u>\$ 78,307,831</u>	<u>\$ 75,419,665</u>	<u>\$ 2,888,166</u>	3.8%

Total General Fund Revenue increased by \$2,888,166 or 3.8% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. In the current year, the reduction of the property tax shift resulted in a corresponding increase in state aid in the amount of \$4,573,855. Therefore, 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, 2014</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Salaries	\$ 47,227,916	\$ 45,850,498	\$ 1,377,418	3.0%
Employee Benefits	17,350,437	15,244,008	2,106,429	13.8%
Purchased Services	6,864,474	6,984,688	(120,214)	-1.7%
Supplies and Materials	3,374,793	2,904,837	469,956	16.2%
Capital Expenditures	3,891,366	3,590,031	301,335	8.4%
Other Expenditures	373,011	388,024	(15,013)	-3.9%
Total Expenditures	<u>\$ 79,081,997</u>	<u>\$ 74,962,086</u>	<u>\$ 4,119,911</u>	5.5%

Total General Fund Expenditures increased \$4,119,911 or about 5.5% from the previous year.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND (CONTINUED)

The total fund balance at June 30, 2014, is \$14,015,925. Of this amount \$4,698,480 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. The additional funds will be beneficial for future years.

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, 2014 is \$1,251,699, an increase of \$72,921 from June 30, 2013.

Food Service Fund Revenues for the year ended June 30, 2014 totaled \$3,715,790. This was an increase of \$6,660 or 0.1% from the year ended June 30, 2013.

Food Service Fund Expenditures for the year ended June 30, 2014 totaled \$3,642,869. This was an increase of \$66,305 or 1.8% from the year ended June 30, 2013.

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, 2014 is \$1,138,608, an increase of \$86,018 from June 30, 2013.

Community Service Fund Revenues for the year ended June 30, 2014 totaled \$5,221,203. This was an increase of \$394,501 or 8.1% from the year ended June 30, 2013. This increase is largely related to a large donation received in the current year and an increase in school age care program participation.

Community Service Fund Expenditures for the year ended June 30, 2014 totaled \$5,135,185. This was an increase of \$513,915 or 11.1% from the year ended June 30, 2013. This increase is related to additional expenditures in adult basic education and the school age care program.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2014, the District had invested over \$57.6 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 \$2,488,319.

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

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Land	\$ 4,120,830	\$ 4,120,830	0.0%
Construction in Progress	1,362,374	482,437	182.4%
Land Improvements	5,762,701	4,718,188	22.1%
Buildings and Improvements	82,437,475	81,766,580	0.8%
Equipment	5,554,864	5,440,826	2.1%
Less: Accumulated Depreciation	<u>(41,552,532)</u>	<u>(39,088,193)</u>	<u>6.3%</u>
Total	<u><u>\$ 57,685,712</u></u>	<u><u>\$ 57,440,668</u></u>	<u><u>0.4%</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.

In February 2014, general obligation school building bonds totaling \$69,500,000 were issued for the construction and betterment of various school sites and facilities.

The balance of \$6,415,129 as of June 30, 2014 includes a reoffering premium from the bond sale to effectively reduce the interest cost. This 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, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had \$118,072,679 in general obligation bonds, bond premium/discount and lease purchase agreements.

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

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 112,490,000	\$ 47,035,000	139.16%
Bond Premium/Discount	4,253,973	120,380	3433.79%
Capital Leases Payable	1,328,706	1,474,802	-9.91%
Severance and Wellness Benefits Payable	5,213,633	5,387,228	-3.22%
Compensated Absences Payable	475,827	427,525	11.30%
Total	<u><u>\$ 123,762,139</u></u>	<u><u>\$ 54,444,935</u></u>	<u>127.32%</u>
Long-Term Liabilities:			
Due Within One Year	\$ 8,180,707	\$ 4,622,049	
Due in More Than One Year	115,581,432	49,822,886	
	<u><u>\$ 123,762,139</u></u>	<u><u>\$ 54,444,935</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

(This page intentionally left blank)

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	Governmental Activities	
	2014	2013
ASSETS		
Cash and Investments	\$ 96,869,439	\$ 19,375,562
Receivables		
Property Taxes	10,151,347	8,756,872
Other Governments	9,777,419	9,653,774
Other	444,065	285,566
Prepaid Items	10,936	10,618
Inventories	62,123	43,400
Prefunded Other Post Employment Benefit Obligations	7,660,392	7,648,845
Bond Issuance Costs, Net	-	88,962
Capital Assets		
Land and Construction in Progress	5,483,204	4,603,267
Other Capital Assets, Net of Depreciation	52,202,508	52,837,401
Total Assets	<u>182,661,433</u>	<u>103,304,267</u>
LIABILITIES		
Salaries and Payroll Deductions Payable	4,392,107	4,090,278
Accounts and Contracts Payable	2,259,540	2,191,031
Accrued Interest	1,821,666	829,178
Due to Other Governmental Units	2,080	1,458
Unearned Revenue	357,593	467,468
Long-Term Liabilities		
Portion Due Within One Year	8,180,707	4,622,049
Portion Due in More Than One Year	115,581,432	49,822,886
Total Liabilities	<u>132,595,125</u>	<u>62,024,348</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	19,345,624	11,517,731
Total Deferred Inflows of Resources	<u>19,345,624</u>	<u>11,517,731</u>
NET POSITION		
Net Investment in Capital Assets	26,022,900	25,342,087
Restricted for:		
Operating Capital Purposes	2,359,920	2,546,588
State-Mandated Restrictions	2,584,198	2,296,473
Food Service	1,251,699	1,256,891
Community Service	1,153,063	1,064,507
Debt Service	5,017,656	1,740,222
Unrestricted	(7,668,752)	(4,484,580)
Total Net Position	<u>\$ 30,720,684</u>	<u>\$ 29,762,188</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	2014		
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 2,856,356	\$ -	\$ -
District Support Services	1,361,145	-	-
Regular Instruction	40,580,251	551,697	8,107,665
Vocational Education Instruction	963,032	-	51,359
Special Education Instruction	15,993,552	5,443	12,162,209
Instructional Support Services	5,812,482	-	-
Pupil Support Services	5,249,398	-	194,722
Sites and Buildings	7,195,225	163,134	-
Fiscal and Other Fixed Cost Programs	209,993	-	-
Food Service	3,628,051	1,518,166	2,197,165
Community Service	5,135,249	2,861,732	1,476,573
Interest and Fiscal Charges on Long-Term Liabilities	2,955,036	-	-
Total School District	\$ 91,939,770	\$ 5,100,172	\$ 24,189,693

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.

	2014	2013
Revenues	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ 442	\$ (2,855,914)	\$ (2,724,792)
13,773	(1,347,372)	(1,262,865)
147,169	(31,773,720)	(30,527,713)
-	(911,673)	(878,834)
1,426	(3,824,474)	(4,174,581)
246,119	(5,566,363)	(4,619,239)
3,039	(5,051,637)	(4,697,397)
402,075	(6,630,016)	(6,389,110)
-	(209,993)	(217,058)
-	87,280	186,765
-	(796,944)	(906,283)
-	(2,955,036)	(2,052,813)
<u>\$ 814,043</u>	<u>(61,835,862)</u>	<u>(58,263,920)</u>

6,845,368	10,972,863
450,537	781,482
5,440,570	6,555,910
49,823,593	43,327,309
217,036	8,389
95,367	139,945
<u>62,872,471</u>	<u>61,785,898</u>
1,036,609	3,521,978
29,762,188	26,240,210
(78,113)	-
<u>29,684,075</u>	<u>26,240,210</u>
<u>\$ 30,720,684</u>	<u>\$ 29,762,188</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 14,862,334	\$ 1,241,826	\$ 1,542,513
Receivables			
Current Property Taxes	5,139,955	-	419,093
Delinquent Property Taxes	218,498	-	14,455
Due from Minnesota Department of Education	6,668,681	157	133,448
Due from Federal through Minnesota Department of Education	2,767,834	36,066	167,609
Other Receivables	137,368	7,723	18,244
Prepaid Items	10,936	-	-
Inventory	-	62,123	-
Total Assets	<u>\$ 29,805,606</u>	<u>\$ 1,347,895</u>	<u>\$ 2,295,362</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities			
Salaries and Payroll Deductions Payable	\$ 4,242,892	\$ 10,020	\$ 139,195
Accounts and Contracts Payable	1,466,187	1,916	18,292
Due to Other Governmental Units	2,080	-	-
Due to Other Funds	-	-	-
Unearned Revenue	154,081	84,260	119,252
Total Liabilities	<u>5,865,240</u>	<u>96,196</u>	<u>276,739</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	9,705,943	-	865,560
Unavailable Revenue - Delinquent Property Taxes	218,498	-	14,455
Total Deferred Inflows of Resources	<u>9,924,441</u>	<u>-</u>	<u>880,015</u>
Fund Balance			
Nonspendable:			
Prepaid Items	10,936	-	-
Inventory	-	62,123	-
Restricted:			
Staff Development	220,195	-	-
Health and Safety	(245,638)	-	-
Deferred Maintenance	380,632	-	-
Operating Capital	2,359,920	-	-
Learning and Development	1,123,160	-	-
Basic Skills Programs	860,211	-	-
Community Education Programs	-	-	663,238
Early Childhood and Family Education Programs	-	-	315,104
School Readiness	-	-	56,407
Adult Basic Education	-	-	103,859
Other Purposes	-	1,189,576	-
Assigned:			
Separation/Retirement Benefits	690,000	-	-
Unassigned	8,616,509	-	-
Total Fund Balance	<u>14,015,925</u>	<u>1,251,699</u>	<u>1,138,608</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 29,805,606</u>	<u>\$ 1,347,895</u>	<u>\$ 2,295,362</u>

See accompanying Notes to Financial Statements.

Funds			Total Governmental	
Capital Projects	Debt Service	OPEB Debt Service	Funds	
			2014	2013
\$ 67,660,750	\$ 10,011,985	\$ 1,230,071	\$ 96,549,479	\$ 19,187,765
-	3,378,182	870,107	9,807,337	8,472,825
-	85,018	26,039	344,010	284,047
-	2,025	1,599	6,805,910	6,553,603
-	-	-	2,971,509	3,100,171
280,730	-	-	444,065	285,566
-	-	-	10,936	10,618
-	-	-	62,123	43,400
<u>\$ 67,941,480</u>	<u>\$ 13,477,210</u>	<u>\$ 2,127,816</u>	<u>\$ 116,995,369</u>	<u>\$ 37,937,995</u>
\$ -	\$ -	\$ -	\$ 4,392,107	\$ 4,090,278
480,976	-	-	1,967,371	1,911,793
-	-	-	2,080	1,458
-	-	-	-	102,202
-	-	-	357,593	467,468
<u>480,976</u>	<u>-</u>	<u>-</u>	<u>6,719,151</u>	<u>6,573,199</u>
-	6,977,063	1,797,058	19,345,624	11,517,731
-	85,018	26,039	344,010	284,047
-	<u>7,062,081</u>	<u>1,823,097</u>	<u>19,689,634</u>	<u>11,801,778</u>
-	-	-	10,936	10,618
-	-	-	62,123	43,400
-	-	-	220,195	195,970
-	-	-	(245,638)	(173,974)
-	-	-	380,632	376,179
-	-	-	2,359,920	2,546,588
-	-	-	1,123,160	1,157,857
-	-	-	860,211	566,467
-	-	-	663,238	583,848
-	-	-	315,104	237,019
-	-	-	56,407	37,540
-	-	-	103,859	194,183
67,460,504	6,415,129	304,719	75,369,928	3,676,937
-	-	-	690,000	690,000
-	-	-	8,616,509	9,420,386
<u>67,460,504</u>	<u>6,415,129</u>	<u>304,719</u>	<u>90,586,584</u>	<u>19,563,018</u>
<u>\$ 67,941,480</u>	<u>\$ 13,477,210</u>	<u>\$ 2,127,816</u>	<u>\$ 116,995,369</u>	<u>\$ 37,937,995</u>

(This page intentionally left blank)

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	<u>2014</u>	<u>2013</u>
Total Fund Balance for Governmental Funds	\$ 90,586,584	\$ 19,563,018
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	1,362,374	482,437
Land Improvements, Net of Accumulated Depreciation	4,045,237	3,239,050
Buildings and Improvements, Net of Accumulated Depreciation	46,132,285	47,381,324
Equipment, Net of Accumulated Depreciation	2,024,986	2,217,027
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.		
	344,010	284,047
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(1,821,666)	(829,178)
Bond issuance costs are reported as expenditures in the governmental funds.		
	-	88,962
Contributions in excess of the OPEB liability recognized to date, are not current financial resources and therefore are not reported at the fund level.		
	7,660,392	7,648,845
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:		
	27,791	10,761
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(112,490,000)	(47,035,000)
Unamortized Premiums	(4,333,476)	(208,179)
Unamortized Discounts	79,503	87,799
Capital Leases Payable	(1,328,706)	(1,474,802)
Severance and Wellness Benefits Payable	(5,213,633)	(5,387,228)
Compensated Absences Payable	(475,827)	(427,525)
Total Net Position of Governmental Activities	<u>\$ 30,720,684</u>	<u>\$ 29,762,188</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 6,802,946	\$ -	\$ 447,999
Earnings on Investments	6,141	459	423
Other	1,759,721	1,518,166	2,835,144
State Sources	66,747,218	152,881	1,701,132
Federal Sources	2,991,805	2,044,284	236,505
Total Revenues	<u>78,307,831</u>	<u>3,715,790</u>	<u>5,221,203</u>
EXPENDITURES			
Current			
Administration	2,848,586	-	-
District Support Services	1,333,561	-	-
Regular Instruction	38,043,584	-	-
Vocational Education Instruction	955,288	-	-
Special Education Instruction	15,989,957	-	-
Instructional Support Services	4,753,292	-	-
Pupil Support Services	5,200,296	-	-
Sites and Buildings	5,856,857	-	-
Fiscal and Other Fixed Cost Programs	209,210	-	-
Food Service	-	3,571,202	-
Community Service	-	-	5,035,052
Capital Outlay	3,891,366	71,667	100,133
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>79,081,997</u>	<u>3,642,869</u>	<u>5,135,185</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(774,166)	72,921	86,018
OTHER FINANCING SOURCES (USES)			
Capital Lease Proceeds	-	-	-
Insurance Recovery Proceeds	-	-	-
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	(774,166)	72,921	86,018
Fund Balances - Beginning, As Previously Stated	14,790,091	1,256,891	1,052,590
Prior Period Adjustment	-	(78,113)	-
Fund Balances - Beginning, Restated	<u>14,790,091</u>	<u>1,178,778</u>	<u>1,052,590</u>
Fund Balances - Ending	<u>\$ 14,015,925</u>	<u>\$ 1,251,699</u>	<u>\$ 1,138,608</u>

See accompanying Notes to Financial Statements.

Funds			Total Governmental Funds	
Capital Projects	Debt Service	OPEB Debt Service	2014	2013
\$ -	\$ 3,037,439	\$ 2,388,128	\$ 12,676,512	\$ 18,339,059
207,774	1,827	392	217,016	8,428
-	-	-	6,113,031	6,065,660
-	20,116	15,896	68,637,243	61,049,293
-	-	-	5,272,594	5,099,159
<u>207,774</u>	<u>3,059,382</u>	<u>2,404,416</u>	<u>92,916,396</u>	<u>90,561,599</u>
-	-	-	2,848,586	2,635,517
-	-	-	1,333,561	1,224,302
-	-	-	38,043,584	36,342,680
-	-	-	955,288	855,153
-	-	-	15,989,957	15,300,311
-	-	-	4,753,292	4,201,887
-	-	-	5,200,296	4,963,830
-	-	-	5,856,857	5,632,561
-	-	783	209,993	217,058
-	-	-	3,571,202	3,448,519
-	-	-	5,035,052	4,553,447
1,668,890	-	-	5,732,056	3,863,369
-	2,200,000	1,845,000	4,045,000	4,350,000
-	1,523,770	445,483	1,969,253	2,128,012
<u>1,668,890</u>	<u>3,723,770</u>	<u>2,291,266</u>	<u>95,543,977</u>	<u>89,716,646</u>
(1,461,116)	(664,388)	113,150	(2,627,581)	844,953
-	-	-	-	99,640
-	-	-	-	7,058
69,500,000	-	-	69,500,000	-
4,229,260	-	-	4,229,260	-
-	4,807,640	-	4,807,640	8,296
(4,807,640)	-	-	(4,807,640)	(8,296)
<u>68,921,620</u>	<u>4,807,640</u>	<u>-</u>	<u>73,729,260</u>	<u>106,698</u>
67,460,504	4,143,252	113,150	71,101,679	951,651
-	2,271,877	191,569	19,563,018	18,611,367
-	-	-	(78,113)	-
<u>-</u>	<u>2,271,877</u>	<u>191,569</u>	<u>19,484,905</u>	<u>18,611,367</u>
<u>\$ 67,460,504</u>	<u>\$ 6,415,129</u>	<u>\$ 304,719</u>	<u>\$ 90,586,584</u>	<u>\$ 19,563,018</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, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	2014	2013
Net Change in Fund Balance-Total Governmental Funds	\$ 71,101,679	\$ 951,651
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	2,754,833	1,345,936
Loss on Disposal of Capital Assets	(21,470)	(17,943)
Depreciation Expense	(2,488,319)	(2,459,512)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Other Financing Source - Capital Lease	-	(99,640)
Change in Accrued Interest Expense - Capital Leases	1,483	(629)
Principal Payments - Capital Leases	146,096	162,312
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	(69,500,000)	-
Bond Premium	(4,229,260)	-
Repayment of Bond Principal	4,045,000	4,350,000
Change in Accrued Interest Expense - General Obligation Bonds	(993,971)	62,750
Amortization of Bond Issuance Costs	(88,962)	(9,748)
Amortization of Bond Premium	103,963	31,122
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.		
	59,963	(28,804)
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).		
	11,547	(992,290)
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).		
	125,293	284,183
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.		
	17,030	(49,114)
Change in Net Position of Governmental Activities	\$ 1,036,609	\$ 3,521,978

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 11,420,084	\$ 6,774,228	\$ 6,802,946	\$ 28,718
Earnings on Investments	-	-	6,141	6,141
Other	1,835,600	1,845,200	1,759,721	(85,479)
State Sources	61,030,096	66,056,830	66,747,218	690,388
Federal Sources	<u>2,665,700</u>	<u>2,793,620</u>	<u>2,991,805</u>	<u>198,185</u>
Total Revenues	<u>76,951,480</u>	<u>77,469,878</u>	<u>78,307,831</u>	<u>837,953</u>
EXPENDITURES				
Current:				
Administration	2,068,602	2,871,492	2,848,586	(22,906)
District Support Services	1,100,535	1,415,460	1,333,561	(81,899)
Regular Instruction	28,622,339	38,258,645	38,043,584	(215,061)
Vocational Education Instruction	666,853	957,226	955,288	(1,938)
Special Education Instruction	13,514,201	16,284,243	15,989,957	(294,286)
Instructional Support Services	3,954,302	4,936,990	4,753,292	(183,698)
Pupil Support Services	4,660,075	5,289,103	5,200,296	(88,807)
Sites and Buildings	5,035,763	5,977,876	5,856,857	(121,019)
Fiscal and Other Fixed Cost Programs	13,424,220	388,510	209,210	(179,300)
Capital Outlay	<u>4,151,471</u>	<u>3,976,066</u>	<u>3,891,366</u>	<u>(84,700)</u>
Total Expenditures	<u>77,198,361</u>	<u>80,355,611</u>	<u>79,081,997</u>	<u>(1,273,614)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(246,881)	(2,885,733)	(774,166)	2,111,567
OTHER FINANCING SOURCES				
Insurance Recovery Proceeds	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (243,881)</u>	<u>\$ (2,885,733)</u>	(774,166)	<u>\$ 2,111,567</u>
FUND BALANCE				
Beginning of Year			<u>14,790,091</u>	
End of Year			<u>\$ 14,015,925</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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Earnings on Investments	\$ 200	\$ 200	\$ 459	\$ 259
Other - Primarily Meal Sales	1,562,500	1,544,500	1,518,166	(26,334)
State Sources	160,000	153,000	152,881	(119)
Federal Sources	1,778,000	1,867,000	2,044,284	177,284
Total Revenues	<u>3,500,700</u>	<u>3,564,700</u>	<u>3,715,790</u>	<u>151,090</u>
EXPENDITURES				
Current				
Food Service	3,446,026	3,538,860	3,571,202	32,342
Capital Outlay	130,000	175,000	71,667	(103,333)
Total Expenditures	<u>3,576,026</u>	<u>3,713,860</u>	<u>3,642,869</u>	<u>(70,991)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (75,326)</u>	<u>\$ (149,160)</u>	72,921	<u>\$ 222,081</u>
FUND BALANCE				
Beginning of Year, As Previously Stated			1,256,891	
Prior Period Adjustment			<u>(78,113)</u>	
Beginning of Year, Restated			<u>1,178,778</u>	
End of Year			<u>\$ 1,251,699</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 783,245	\$ 397,215	\$ 447,999	\$ 50,784
Earnings on Investments	500	500	423	(77)
Other - Primarily Tuition and Fees	2,306,134	2,376,999	2,835,144	458,145
State Sources	1,268,248	1,737,354	1,701,132	(36,222)
Federal Sources	140,856	338,425	236,505	(101,920)
Total Revenues	<u>4,498,983</u>	<u>4,850,493</u>	<u>5,221,203</u>	<u>370,710</u>
EXPENDITURES				
Current				
Community Service	4,553,534	4,987,838	5,035,052	47,214
Capital Outlay	24,400	58,685	100,133	41,448
Total Expenditures	<u>4,577,934</u>	<u>5,046,523</u>	<u>5,135,185</u>	<u>88,662</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (78,951)</u>	<u>\$ (196,030)</u>	86,018	<u>\$ 282,048</u>
FUND BALANCE				
Beginning of Year			<u>1,052,590</u>	
End of Year			<u>\$ 1,138,608</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	Governmental Activities - Internal Service Funds	
	2014	2013
ASSETS		
Current Assets		
Cash and Investments	\$ 319,960	\$ 187,797
Due From Other Funds	-	102,202
Total Assets	319,960	289,999
LIABILITIES		
Current Liabilities		
Claims Payable for Health and Dental Benefits	292,169	279,238
Total Current Liabilities	292,169	279,238
NET POSITION		
Unrestricted	27,791	10,761
Total Net Position	\$ 27,791	\$ 10,761

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, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	Governmental Activities - Internal Service Funds	
	2014	2013
OPERATING REVENUES		
Charges for Services	\$ 533,257	\$ 513,932
Total Operating Revenues	533,257	513,932
OPERATING EXPENSES		
Dental Insurance Claim Payments	466,080	510,589
General Administration Fees	50,167	52,418
Total Operating Expenses	516,247	563,007
Operating Income (Loss)	17,010	(49,075)
NONOPERATING INCOME		
Earnings on Investments	20	(39)
Change in Net Position	17,030	(49,114)
Total Net Position - Beginning	10,761	59,875
Total Net Position - Ending	\$ 27,791	\$ 10,761

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEARS ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	<u>Governmental Activities - Internal Service Funds</u>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 533,257	\$ 513,932
Payments for Administrative Costs	(50,167)	(52,418)
Payments for Medical Fees and Insurance Claims	(453,149)	(453,881)
Net Cash Provided by Operating Activities	<u>29,941</u>	<u>7,633</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due From Other Funds	<u>102,202</u>	<u>180,203</u>
Net Cash Provided by Noncapital Financing Activities	102,202	180,203
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received (Paid)	<u>20</u>	<u>(39)</u>
Net Increase in Cash and Cash Equivalents	132,163	187,797
Cash and Cash Equivalents - Beginning	<u>187,797</u>	<u>-</u>
Cash and Cash Equivalents - Ending	<u>\$ 319,960</u>	<u>\$ 187,797</u>
Displayed on Statement of Net Position as:		
Cash and Investments	<u>\$ 319,960</u>	<u>\$ 187,797</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 17,010	\$ (49,075)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Increase in Claims Payable	<u>12,931</u>	<u>56,708</u>
Total Adjustments	<u>12,931</u>	<u>56,708</u>
Net Cash Provided by Operating Activities	<u>\$ 29,941</u>	<u>\$ 7,633</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

	<u>Private- Purpose Trust</u>	<u>OPEB Benefit Trust</u>	<u>Agency Funds</u>
ASSETS			
Cash and Investments	\$ 132,212	\$ 13,969,779	\$ 791,596
Accounts Receivable	-	-	44,416
Total Assets	<u>132,212</u>	<u>13,969,779</u>	<u>\$ 836,012</u>
LIABILITIES			
Salaries and Payroll Deductions Payable	-	-	\$ 3,318
Accounts Payable and Due to Other Governments	-	-	832,694
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 836,012</u>
NET POSITION			
Restricted for Payment of OPEB Benefits	-	13,969,779	
Restricted for Scholarships and Other Purposes	<u>132,212</u>	<u>-</u>	
Total Net Position	<u>\$ 132,212</u>	<u>\$ 13,969,779</u>	

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014**

	<u>Private- Purpose Trust</u>	<u>OPEB Benefit Trust</u>
ADDITIONS		
Gifts and Donations	\$ 11,787	\$ -
Earnings on Investments	-	1,499,194
Total Additions	<u>11,787</u>	<u>1,499,194</u>
DEDUCTIONS		
Scholarships Awarded	28,531	-
Retirement Benefits	-	822,178
Administrative Costs	-	61,464
Total Deductions	<u>28,531</u>	<u>883,642</u>
Change in Net Position	(16,744)	615,552
Net Position - Beginning of Year	<u>148,956</u>	<u>13,354,227</u>
Net Position - End of Year	<u>\$ 132,212</u>	<u>\$ 13,969,779</u>

See accompanying Notes to Financial Statements.

(This page intentionally left blank)

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014**

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 government-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, 2014**

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, 2014**

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, 2014**

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, U.S. Treasury bonds, federal agency bonds, and commercial paper held with the Minnesota Liquid School District Asset Fund (MSDLAF). 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. 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.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of food and other supplies on hand at June 30, 2014 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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.

J. Property Taxes

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

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. Starting in fiscal year 2011, the shift was expanded to include all other General and Community Service Fund levies. State aids were then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. In fiscal year 2014, the shift was reduced to only include the 2000 Pay 2001 operating referendum levy. State aids were increased by this reduction in the shift, making it revenue neutral. Certain other portions of the District's 2013 Pay 2014 levy, normally revenue for the 2014-15 fiscal year, are also advance recognized at June 30, 2014, as required by state statute to match revenue with the same fiscal year as the related expenditures.

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, 2014, 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
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their 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.

L. 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.

M. Accrued Employee Benefits

Vacation Pay and Sick Leave

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

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

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 2014 were \$416,513. A liability for severance and wellness benefits payable totaling \$5,213,633 is recorded in the Statement of Net Position.

N. 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 \$1,386 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, 2014.

O. Fund Balance

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

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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 two 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.

Q. 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 and excess tax increment financing funds expected to be repaid. The Community Service Fund also reported unearned revenue for fees collected in advance of fiscal year 2015. In the Food Service Fund, fees collected for student meals not used are classified as unearned.

R. 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.

S. 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, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. 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.

U. 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 government's financial statements for the year ended June 30, 2013, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

V. Restatement of Net Position and Fund Balance

The Food Service fund balance and Governmental Activities net position at July 1, 2013 was restated to reflect an overstatement of prior year revenue, fund balance, and net position of \$78,113. The Food Service beginning fund balance of \$1,256,891 has been restated to \$1,178,778. The Governmental Activities beginning net position of \$29,762,188 has been restated to \$29,684,075.

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 School 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, 2014 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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.

At June 30, 2014, the District had the following investments:

External Investment Pool

	Amortized Cost
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 32,223,953
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	433,676
	\$ 32,657,629

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The District also has the following investments:

	Fair Value
US Treasury Bonds	\$ 9,088,781
Federal Agency Bonds	42,997,500
Commerical Paper	6,411,822
Mutual Funds - Equity	4,747,217
Mutual Funds - Fixed Income	9,185,617
First Amer Govt Oblig Fund CI Z Money Market	35,442
	\$ 72,466,379

Credit Risk related to these securities is as follows:

Type	Credit Rating
US Treasury Bonds	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

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, 2014, the District's investments have the following maturities:

Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 32,223,953	\$32,223,953	\$ -	\$ -
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	433,676	433,676	-	-
US Treasury Bonds	9,088,781	-	9,088,781	-
Federal Agency Bonds	42,997,500	11,261,047	17,398,628	14,337,825
Commerical Paper	6,411,822	6,411,822	-	-
Mutual Funds - Equity	4,747,217	4,747,217	-	-
Mutual Funds - Fixed Income	9,185,617	9,185,617	-	-
First Amer Govt Oblig Fund CI Z Money Market	35,442	35,442	-	-
	\$ 105,124,008	\$ 64,298,774	\$ 26,487,409	\$ 14,337,825

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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, 2014, 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)	\$ 32,223,953	30.65%
FHLB Securities	6,551,790	6.23%
FHLMC Notes	9,468,399	9.01%
FNMA Notes	22,268,054	21.18%
Vanguard Mutual Funds	6,843,318	6.51%
US Treasury Notes	9,088,781	8.65%

C. Balance Sheet Presentation

Deposits	\$ 223,828
Cash on Hand	1,190
Minnesota School District Liquid Asset Fund CDs	6,414,000
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	32,223,953
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	433,676
US Treasury Bonds	9,088,781
Federal Agency Bonds	42,997,500
Commerical Paper	6,411,822
Mutual Funds - Equity	4,747,217
Mutual Funds - Fixed Income	9,185,617
First Amer Govt Oblig Fund CI Z Money Market	35,442
	<u>\$ 111,763,026</u>

These amounts are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 96,869,439
Cash and Investments - Statement of Fiduciary Net Position	14,893,587
Total Cash and Investments	<u>\$ 111,763,026</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 4,120,830	\$ -	\$ -	\$ 4,120,830
Construction in Progress	482,437	1,362,374	(482,437)	1,362,374
Total Capital Assets, Not Being Depreciated	4,603,267	1,362,374	(482,437)	5,483,204
Capital Assets, Being Depreciated				
Land Improvements	4,718,188	1,044,513	-	5,762,701
Buildings and Improvements	81,766,580	670,895	-	82,437,475
Equipment	5,440,826	159,488	(45,450)	5,554,864
Total Capital Assets, Being Depreciated	91,925,594	1,874,896	(45,450)	93,755,040
Accumulated Depreciation for				
Land Improvements	(1,479,138)	(238,326)	-	(1,717,464)
Buildings and Improvements	(34,385,256)	(1,919,934)	-	(36,305,190)
Equipment	(3,223,799)	(330,059)	23,980	(3,529,878)
Total Accumulated Depreciation	(39,088,193)	(2,488,319)	23,980	(41,552,532)
Total Capital Assets, Being Depreciated, Net	52,837,401	(613,423)	(21,470)	52,202,508
Governmental Activities Capital Assets, Net	\$ 57,440,668	\$ 748,951	\$ (503,907)	\$ 57,685,712

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

Governmental Activities	
Administration	\$ 1,852
District Support Services	4,177
Regular Instruction	2,295,892
Vocational Education Instruction	1,117
Special Education Instruction	4,804
Instructional Support Services	24,268
Pupil Support Services	43,659
Sites and Buildings	63,869
Food Service	40,231
Community Service	8,450
Total Depreciation Expense, Governmental Activities	<u>\$ 2,488,319</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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	\$ 275,000	\$ 4,160,000
8/7/2008	3.00% - 4.70%	33,350,000	2/1/2029	1,615,000	27,450,000
8/27/2009	1.75% - 5.40%	11,960,000	2/1/2024	1,370,000	8,390,000
9/15/2009	2.00% - 3.50%	4,060,000	2/1/2021	380,000	2,990,000
2/19/2014	4.00%	69,500,000	2/1/2034	3,675,000	69,500,000
Total General Obligation Bonds				7,315,000	112,490,000
Bond Premium				227,316	4,333,476
Bond Discounts				(8,296)	(79,503)
Capital Leases Payable				142,234	1,328,706
Severance and Wellness Benefits Payable				100,000	5,213,633
Compensated Absences Payable				404,453	475,827
				<u>\$ 8,180,707</u>	<u>\$ 123,762,139</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
2015	\$ 7,315,000	\$ 4,605,694
2016	6,630,000	4,321,690
2017	5,125,000	4,061,118
2018	5,365,000	3,857,458
2019	5,615,000	3,643,384
2020 - 2024	29,830,000	14,640,628
2025 - 2029	27,620,000	8,630,824
2030 - 2034	24,990,000	2,999,600
	<u>\$ 112,490,000</u>	<u>\$ 46,760,396</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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.

Capital Lease Payable

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

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

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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Capital Lease Payable (Continued)

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 \$2,233,953 and \$468,986, 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, 2014:

Year Ending June 30,		
2015	\$	213,343
2016		209,414
2017		188,589
2018		109,239
2019		106,404
2020 - 2024		532,020
2025 - 2028		381,281
Total Minimum Lease Payments		1,740,290
Less Amounts Representing Interest		
Present Value of Net Minimum		411,584
Lease Payments	\$	1,328,706

Severance and Wellness Benefits Payable

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

Compensated Absences Payable

Employees earn annual vacation pay at rates dependent upon each employee group labor contract. At June 30th, certain employee groups may carry forward up to one year of unpaid vacation. At June 30, 2014, unpaid vacation totaling \$475,827 is recorded in the Statement of Net Position. Vacation benefits have been paid by the General and Special Revenue Funds.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2013	Net Additions	Retirements	June 30, 2014
Bonds Payable	\$ 47,035,000	\$ 69,500,000	\$ 4,045,000	\$ 112,490,000
Bond Premium	208,179	4,229,260	103,963	4,333,476
Bond Discounts	(87,799)	-	(8,296)	(79,503)
Capital Leases Payable	1,474,802	-	146,096	1,328,706
Severance and Wellness Benefits Payable	5,387,228	242,918	416,513	5,213,633
Compensated Absences Payable	427,525	537,568	489,266	475,827
	<u>\$ 54,444,935</u>	<u>\$ 74,509,746</u>	<u>\$ 5,192,542</u>	<u>\$ 123,762,139</u>

NOTE 5 OPERATING LEASES

The District has lease agreements to lease facilities and equipment. Rent expense under annual operating leases for the year ending June 30, 2014 was \$668,594. Some of these operating leases are funded through the lease levy.

Minimum rental commitments on leases in effect at June 30, 2014 are as follows:

Year Ending June 30,	
2015	\$ 558,375
2016	399,516
2017	378,194
2018	344,489
2019	202,284
2020	110,100
	<u>\$ 1,992,958</u>

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES

Fund Equity

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. In addition, certain portions of fund balance have been assigned by the District for use for specific purposes.

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

A. Restricted for Staff Development

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

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 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.

G. Restricted for Community Education Programs

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

H. 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.

I. Restricted for School Readiness

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

J. Restricted for Adult Basic Education

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

K. Restricted for Other Purposes

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

L. Assigned for Separation/Retirement Benefits

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

NOTE 7 PENSION PLANS

Substantially all employees of the District are required by State Law to belong to a pension plan administered by Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans follow:

A. Teachers Retirement Association (TRA)

1. Plan Description

All teachers employed by the District are covered by a cost sharing, multiple employer defined benefit pension plan administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, and further information on benefits provisions. The report may be accessed at the TRA website at www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing TRA at Teachers Retirement Association, 60 Empire Drive Suite 400, St. Paul, MN 55103 or by calling (651) 296-6449 or 1-800-657-3853.

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.0% and 9.5%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 PENSION PLANS (CONTINUED)

A. Teachers Retirement Association (TRA) (Continued)

2. Funding Policy (Continued)

The District is required to contribute the following percentages of annual covered payroll: 7.0% for Coordinated Plan members and 10.0% for Basic Plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2014, 2013, and 2012 were \$2,593,921, \$2,329,449, and \$2,101,647, respectively, equal to the required contributions for each year as set by state statute.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5 percent each year of the four-year period. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates are 7.5 percent.

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement 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. PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, MN 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA) (Continued)

2. Funding Policy (Continued)

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERP members, and 7.25% for Coordinated Plan members. The District's contributions for the years ended June 30, 2014, 2013, and 2012 were \$888,485, \$871,113, and \$856,632, respectively, equal to the required contributions for each year as set by State Statute.

C. 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, 2014, 2013, and 2012 are \$566,793, \$541,207, and \$467,826, respectively. The related employee contributions were \$1,315,006, \$1,267,635, and \$1,197,916, for the years ended June 30, 2014, 2013, and 2012, 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 679 active participants and 137 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 2014, total contributions to the plan were \$1,202,740.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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	\$ 1,094,445
Interest on Net OPEB Obligation	(458,931)
Adjustment to Annual Required Contribution	<u>555,679</u>
Annual OPEB Cost (Expense)	1,191,193
Contributions Made	<u>(1,202,740)</u>
Decrease in Net OPEB Asset	(11,547)
Net OPEB Asset - Beginning of Year	<u>(7,648,845)</u>
Net OPEB Asset - End of Year	<u><u>\$ (7,660,392)</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 2014, and the two preceding years is:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2014	\$ 1,191,193	101.0%	\$ (7,660,392)
6/30/2013	1,343,308	26.1%	(7,648,845)
6/30/2012	1,261,876	25.9%	(8,641,135)

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$4,562,026. The annual payroll for active employees covered by the plan in the actuarial valuation was \$44,635,043 for a ratio of UAAL to covered payroll of 10.2%.

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 6% 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 8.5%, reduced by decrements to an ultimate rate of 5% after seven years. The UAAL is being amortized as a level dollar amount over 30 years. The remaining amortization period at June 30, 2014 does not exceed 30 years.

NOTE 9 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Expenditures	Excess
Special Revenue Fund			
Community Service Fund	\$ 5,046,523	\$ 5,135,185	\$ 88,662

These additional expenditures were paid for with available fund balance.

B. Interfund Transfers

Individual fund transfers for the year ended June 30, 2014 are as follows:

Fund	Transfer In	Transfer Out
Debt Service Fund	\$ 4,807,640	\$ -
Capital Projects Fund	-	(4,807,640)
	\$ 4,807,640	\$ (4,807,640)

The purpose of the transfer from the Capital Projects Fund to the Debt Service Fund was to move bond proceeds to be used for debt service payments.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 \$577,902. 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 \$516,247 for the year ended June 30, 2014.

The liability for unpaid claims included in the Internal Service Fund as claims payable for 2014 and the preceding year were:

	June 30, 2014	June 30, 2013
Beginning of Year Liability - July 1	\$ 279,238	\$ 222,530
Incurred Claims	466,080	510,589
Claims Payments	(453,149)	(453,881)
End of Year Liability - June 30	\$ 292,169	\$ 279,238

NOTE 11 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, 2014 the District had entered in various construction contracts for the construction and betterment of school facilities. Total remaining commitments under these contracts were \$1,062,508.

C. Subsequent Commitments

Since June 30, 2014 the District has entered into a construction contract for the construction and betterment of school facilities. Total commitment under this contract is \$4,782,850. Additionally, the District has purchased land at a cost of \$2,490,455 for the site of the new middle school subsequent to June 30, 2014. Both of these commitments are financed with proceeds from the 2014A bond issuance. See Note 4.

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**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)
7/1/2012	\$ 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%
7/1/2008	-	15,733,612	15,733,612	0.0%	44,998,934	35.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Required Contribution	Employer Contribution	Percentage Contributed
6/30/2014	\$ 1,094,445	\$ 1,202,740	109.9%
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%

(This page intentionally left blank)

SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF CHANGES IN FUND EQUITIES
YEAR ENDED JUNE 30, 2014**

	Fund Equities June 30, 2013	Revenues	Expenditures	Other Financing Sources (Uses)	Transfers	Total
GOVERNMENTAL FUNDS						
General Fund						
Nonspendable	\$ 10,618	\$ -	\$ -	\$ -	\$ 318	\$ 10,936
Restricted for Staff Development	195,970	926,503	902,278	-	-	220,195
Restricted for Health and Safety	(173,974)	449,223	520,887	-	-	(245,638)
Restricted for Deferred Maintenance	376,179	547,436	542,983	-	-	380,632
Restricted for Operating Capital	2,546,588	3,188,419	3,375,087	-	-	2,359,920
Restricted for Learning and Development	1,157,857	1,874,959	1,909,656	-	-	1,123,160
Restricted for Gifted and Talented	-	104,848	163,954	-	59,106	-
Restricted for Basic Skills	566,467	3,853,511	4,590,777	-	1,031,010	860,211
Restricted for Career and Tech. Programs	-	154,978	433,509	-	278,531	-
Restricted for Safe Schools - Crime	-	273,718	273,718	-	-	-
Assigned for Severance	690,000	-	-	-	-	690,000
Unassigned	9,420,386	66,934,236	66,369,148	-	(1,368,965)	8,616,509
Total General Fund	14,790,091	78,307,831	79,081,997	-	-	14,015,925
Food Service Fund						
Nonspendable	43,400	-	-	-	18,723	62,123
Restricted for Other Purposes, As Restated	1,135,378	3,715,790	3,642,869	-	(18,723)	1,189,576
Total Food Service Fund	1,178,778	3,715,790	3,642,869	-	-	1,251,699
Community Service Fund						
Restricted for Community Education	583,848	3,026,742	2,947,352	-	-	663,238
Restricted for E.C.F.E.	237,019	572,500	494,415	-	-	315,104
Restricted for School Readiness	37,540	173,601	154,734	-	-	56,407
Restricted for Adult Basic Education	194,183	1,149,237	1,239,561	-	-	103,859
Restricted for Other Purposes	-	299,123	299,123	-	-	-
Total Community Service Fund	1,052,590	5,221,203	5,135,185	-	-	1,138,608
Capital Projects Fund						
Restricted for Other Purposes	-	207,774	1,668,890	68,921,620	-	67,460,504
Total Capital Projects Fund	-	207,774	1,668,890	68,921,620	-	67,460,504
Debt Service Fund						
Restricted for Other Purposes	2,271,877	3,059,382	3,723,770	4,807,640	-	6,415,129
Total Debt Service Fund	2,271,877	3,059,382	3,723,770	4,807,640	-	6,415,129
OPEB Debt Service Fund						
Restricted for Other Purposes	191,569	2,404,416	2,291,266	-	-	304,719
Total OPEB Debt Service Fund	191,569	2,404,416	2,291,266	-	-	304,719
TOTAL GOVERNMENTAL FUNDS	19,484,905	92,916,396	95,543,977	73,729,260	-	90,586,584
FIDUCIARY FUNDS						
Trust Fund						
Restricted for Scholarships and Other Purposes	148,956	11,787	28,531	-	-	132,212
Total Trust Fund	148,956	11,787	28,531	-	-	132,212
OPEB Trust Fund						
Restricted for Payment of OPEB Benefits	13,354,227	1,499,194	883,642	-	-	13,969,779
Total OPEB Trust Fund	13,354,227	1,499,194	883,642	-	-	13,969,779
TOTAL FIDUCIARY FUNDS	13,503,183	1,510,981	912,173	-	-	14,101,991
PROPRIETARY FUNDS						
Internal Service Fund						
Unrestricted	10,761	533,277	516,247	-	-	27,791
Total Internal Service Fund	10,761	533,277	516,247	-	-	27,791
TOTAL PROPRIETARY FUNDS	10,761	533,277	516,247	-	-	27,791
GRAND TOTAL	\$ 32,998,849	\$ 94,960,654	\$ 96,972,397	\$ 73,729,260	\$ -	\$ 104,716,366

(This page intentionally left blank)

SINGLE AUDIT AND OTHER REQUIRED REPORTS

(This page intentionally left blank)

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Passthrough Number</u>	<u>Federal Expenditures</u>
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	\$ 190,636
Total Non-Cash Assistance			\$ 190,636
Cash Assistance:			
School Breakfast Program	a 10.553	1-077-000	296,004
National School Lunch Program	a 10.555	1-077-000	1,339,098
National School Lunch Program - Commodity Cash Rebate	a 10.555	1-077-000	69,019
Special Milk Program for Children	a 10.556	1-077-000	2,507
Summer Food Service Program for Children	a 10.559	1-077-000	68,908
Total Cash Assistance			<u>1,775,536</u>
Total U.S. Department of Agriculture			<u>1,966,172</u>
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Adult Basic Education State Grant Program	84.002	**	93,769
ABE EL - Civics Competitive Allocation	84.002A	**	40,000
Title I, Part A - Grants to Local Educational Agencies	84.010	**	1,000,187
Special Education Grants to States	b 84.027	**	1,474,865
Special Education Preschool Grants	b 84.173	**	66,293
Special Education Grants for Infants and Families with Disabilities	c 84.181	**	46,194
Title III, Part A - English Language Acquisition Grants	84.365	**	83,633
Title II - Improving Teacher Quality State Grants	84.367	**	252,397
Race to the Top - Early Learning Challenge	84.412	**	42,860
Total Passed Through Minnesota Department of Education			3,100,198
Pass-Through Minnesota Valley Education District			
Special Education Grants for Infants and Families with Disabilities	c 84.181	**	8,786
Total Passed Through Minnesota Valley Education District			8,786
Pass-Through Independent School District #2134			
Special Education Grants for Infants and Families with Disabilities	c 84.181	**	5,858
Total Passed Through Independent School District #2134			5,858
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	**	25,000
Total Passed Through South Central Service Cooperative			28,514
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			3,163,856
U.S. Department of Labor			
Pass-Through Minnesota Department of Education			
Unemployment Insurance - ARRA	17.225	**	26,384
Incentive Grants - WIA Section 503	17.267	**	12,992
Total U.S. Department of Labor			39,376
U.S. Department of Transportation			
Pass-Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	**	25,078
Total U.S. Department of Transportation			<u>25,078</u>
Total Federal Financial Assistance Expended			<u>\$ 5,194,482</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, 2014**

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, 2014, 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 4, 2014.

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 2014-001 to be a material weakness.

Compliance and Other Matters

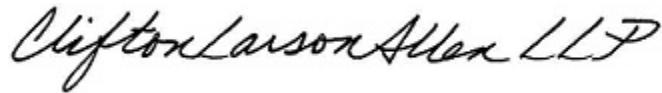
As part of obtaining reasonable assurance about whether Independent School District No. 77's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 4, 2014

**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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of Independent School District No. 77 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No.77's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

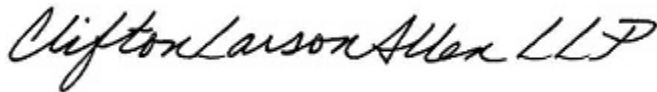
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-003 and 2014-004 to be significant deficiencies.

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.

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.



CliftonLarsonAllen LLP

Austin, Minnesota
October 4, 2014

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, 2014, and the related notes to the financial statements and have issued our report thereon dated October 4, 2014.

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 4, 2014

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

Part I: Summary of Independent Auditors' Results

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Independent School District No. 77.
2. One material weakness in internal control over financial reporting was disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the basic financial statements of Independent School District No. 77 were disclosed during the audit.
4. Three deficiencies in internal control over compliance were disclosed during the audit of the major federal award programs. One deficiency is considered a material weakness, and two deficiencies are considered significant deficiencies. These are listed as findings 2014-002 through 2014-004.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 77 expresses an unmodified opinion.
6. The audit disclosed findings, which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. The programs tested as major programs included:

U.S. Department of Education	
Special Education Cluster:	
Special Education Grants to States	CFDA #84.027
Special Education Preschool Grants	CFDA #84.173
Title I, Part A - Grants to Local Educational Agencies	CFDA #84.010
U.S. Department of Agriculture	
School Breakfast Program	CFDA #10.553
National School Lunch Program	CFDA #10.555
Special Milk Program for Children	CFDA #10.556
Summer Food Service Program for Children	CFDA #10.559
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 77 was not determined to be a low-risk auditee.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

Part II: Findings Related to the General Purpose Financial Statements

FINDING: 2014-001 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 and government-wide net position had to be restated to correct overstated revenue reported in fiscal year 2013.
- 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. The District is now aware that the Minnesota Department of Education labels payments with the federal fiscal year to which it applies, which does not coincide with the District's fiscal year.

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, 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, 2014**

Part III: Federal Awards Findings and Questioned Costs

**FINDING: 2014-002 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: One individual prepares and submits the monthly meals served reimbursement reports without an independent internal review. Errors in meal counts submitted to Minnesota Department of Education were noted in all 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: \$44

Context: None of the data that was submitted for meal reimbursement was approved by an independent member of management. Fourteen 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.

Effect: The District reported an improper number of meals served by category or in total.

Cause: Not known.

Recommendation: The District should designate 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 has hired a dietician. The dietician will be involved in reviewing and approving the meal counts submitted monthly in CLiCS.

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 August 31, 2014.

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, 2014**

**FINDING: 2014-003 TITLE I, PART A – CFDA# 84.010
ALL GRANT YEARS
U.S. DEPARTMENT OF EDUCATION
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
INTERNAL CONTROL OVER PAYROLL**

- Condition:** Timesheets for the fiscal year were tested for seventeen employees paid with Title I federal funds. One timesheet was missing documentation of the proper approval from the Title I Program Director.
- Criteria:** Standard internal control procedures recommend that reports be reviewed and verified by qualified personnel.
- Questioned Costs:** None
- Context:** One of thirty-seven Title I items selected for testing was missing appropriate approval.
- Effect:** The potential exists that unallowable costs are included in the Federal program expenditures.
- Cause:** Not known.
- Recommendation:** We recommend that all time sheets, time certifications, personnel activity reports, and pay distribution reconciliations be reviewed by an appropriate federal programs supervisor. All approval should be documented and maintained.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will implement the recommendation above. 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 September 30, 2014.

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, 2014**

**FINDING: 2014-004 SPECIAL EDUCATION CLUSTER – CFDA# 84.027 & 84.173
ALL GRANT YEARS
U.S. DEPARTMENT OF EDUCATION
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
INTERNAL CONTROL OVER STUDENTS SERVED**

- Condition:** During our Single Audit testing, Special Education students are selected for testing from the District's Unduplicated Child Count report. One student did not receive Special Education services for the current year, and should not have been included on the report.
- Criteria:** Standard internal control procedures require that reports be reviewed and verified by qualified personnel.
- Questioned Costs:** None
- Context:** One 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.
- Effect:** The potential exists that ineligible students could receive program services.
- 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.

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.

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 September 30, 2014.

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, 2014**

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, 2014**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2013-001	Title I, Part A – Internal Control over Cash Management	Corrected	
2013-002	Special Education Cluster – Time and Effort Distribution Records	Corrected	
2013-003	Child Nutrition Cluster – Ineligible Reimbursement	Corrected	
2013-004	Child Nutrition Cluster – Control and Compliance over Monthly Reporting	Not Corrected	See current year finding 2014-002.

(This page intentionally left blank)

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2014**

01 GENERAL FUND	Audit	UFARS	Difference	06 BUILDING CONSTRUCTION	Audit	UFARS	Difference
Total Revenues	\$ 78,307,831	\$ 78,307,824	\$ 7	Total Revenues	\$ 207,774	\$ 207,774	\$ -
Total Expenditures	\$ 79,081,997	\$ 79,081,990	\$ 7	Total Expenditures	\$ 1,668,890	\$ 1,668,890	\$ -
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	\$ 10,936	\$ 10,936	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	\$ 220,195	\$ 220,195	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 380,632	\$ 380,632	\$ -	409 Alternative Fac. Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (245,638)	\$ (245,638)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	464 Other Purposes	\$ 67,460,504	\$ 67,460,504	\$ -
408 Cooperative Rev.	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
414 Operating Debt	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -				
423 Certain Teacher Programs	\$ -	\$ -	\$ -	07 DEBT SERVICE			
424 Operating Capital	\$ 2,359,920	\$ 2,359,920	\$ -	Total Revenues	\$ 3,059,382	\$ 3,059,382	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	Total Expenditures	\$ 3,723,770	\$ 3,723,770	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	<i>Restricted/Reserved:</i>			
428 Learning & Development	\$ 1,123,160	\$ 1,123,160	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	464 Other Purposes	\$ 6,415,129	\$ 6,415,128	\$ 1
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
438 Gifted & Talented	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
441 Basic Skills	\$ 860,211	\$ 860,211	\$ -				
445 Career and Tech, Programs	\$ -	\$ -	\$ -	08 TRUST			
448 Achievement and Integration	\$ -	\$ -	\$ -	Total Revenues	\$ 11,787	\$ 11,787	\$ -
449 Safe Schools Levy	\$ -	\$ -	\$ -	Total Expenditures	\$ 28,531	\$ 28,531	\$ -
450 Pre-Kindergarten	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
451 QZAB Payments	\$ -	\$ -	\$ -	422 Unassigned	\$ 132,212	\$ 132,212	\$ -
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
453 Unfunded Sev & Reiremt Levy	\$ -	\$ -	\$ -	09 AGENCY			
464 Other Purposes	\$ -	\$ -	\$ -	<i>Unassigned: Should Always Be -0-</i>			
<i>Committed:</i>				422 Unassigned	\$ -	\$ -	\$ -
418 Committed for Severance	\$ -	\$ -	\$ -				
461 Committed	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
<i>Assigned:</i>				Total Revenues	\$ 533,277	\$ 533,277	\$ -
462 Assigned	\$ 690,000	\$ 690,000	\$ -	Total Expenditures	\$ 516,247	\$ 516,247	\$ -
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned	\$ 8,616,509	\$ 8,616,507	\$ 2	422 Unassigned	\$ 27,791	\$ 27,791	\$ -
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST			
Total Revenues	\$ 3,715,790	\$ 3,715,788	\$ 2	Total Revenues	\$ -	\$ -	\$ -
Total Expenditures	\$ 3,642,869	\$ 3,642,868	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable	\$ 62,123	\$ 62,123	\$ -	422 Unassigned	\$ -	\$ -	\$ -
<i>Restricted:</i>							
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -	45 OPEB IRREVOCABLE TRUST			
464 Other Purposes	\$ 1,189,576	\$ 1,189,576	\$ -	Total Revenues	\$ 1,499,194	\$ 1,499,195	\$ (1)
<i>Unassigned:</i>				Total Expenditures	\$ 883,642	\$ 883,642	\$ -
463 Unassigned	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
				422 Unassigned	\$ 13,969,779	\$ 13,969,779	\$ -
04 COMMUNITY SERVICE				47 OPEB DEBT SERVICE			
Total Revenues	\$ 5,221,203	\$ 5,221,194	\$ 9	Total Revenues	\$ 2,404,416	\$ 2,404,416	\$ -
Total Expenditures	\$ 5,135,185	\$ 5,135,177	\$ 8	Total Expenditures	\$ 2,291,266	\$ 2,291,266	\$ -
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable	\$ -	\$ -	\$ -	464 Other Purposes	\$ 304,719	\$ 304,719	\$ -
<i>Restricted:</i>				<i>Unassigned:</i>			
426 \$25 Taconite	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
431 Community Education	\$ 663,238	\$ 663,238	\$ -				
432 E.C.F.E.	\$ 315,104	\$ 315,104	\$ -				
444 School Readiness	\$ 56,407	\$ 56,407	\$ -				
447 Adult Basic Education	\$ 103,859	\$ 103,859	\$ -				
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ -	\$ -	\$ -				
<i>Unassigned:</i>							
463 Unassigned	\$ -	\$ -	\$ -				

(This page intentionally left blank)

STUDENT ACTIVITY FUNDS

(This page intentionally left blank)

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, 2014, 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

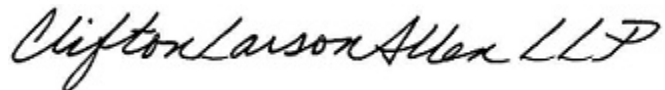
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 77 as of June, 30 2014, 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, 2014, 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 4, 2014

**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, 2014**

	Balance 6/30/2013	Receipts	Disbursements & Transfers	Balance 6/30/2014
WEST HIGH				
Academic Athletic	\$ 351	\$ 456	\$ 34	\$ 773
AVID 11/12	-	250	-	250
Knowledge Bowl	101	-	-	101
Band	81,380	97,448	177,321	1,507
Boys Cross Country	257	797	632	422
Boys Soccer	2,728	2,241	2,192	2,777
Boys Swimming and Dive	-	700	302	398
Choir	17,930	33,568	42,030	9,468
Distributive Education Club of America	17,458	7,665	17,274	7,849
Drama Fund	21,854	26,208	21,909	26,153
Fashions NY	1,268	25,555	25,875	948
Football Fund	2,519	24,393	24,631	2,281
German Language	8,620	30,490	32,485	6,625
Girls Tennis	2,027	-	-	2,027
Girls Gymnastics	60	-	51	9
Girls Soccer	2,468	4,158	3,053	3,573
Girls Swimming and Dive	710	366	603	473
History Club	45	2,430	2,399	76
Hockey Clinic	10,656	7,875	8,641	9,890
Key Club	1,059	3,530	3,173	1,416
Language Club	466	-	-	466
National Honor Society	368	623	794	197
Orchesis	2,583	2,096	301	4,378
Orchestra	28,844	24,965	51,413	2,396
OTAK Projects	4,063	22,386	2,991	23,458
Photo/Art Field Trips	707	487	717	477
Prom Fund	5,729	6,842	9,120	3,451
Hall of Fame	1,575	425	1,025	975
Senior Class	25	-	-	25
Senior Science	1,717	3,264	2,201	2,780
Student Council	2,584	2,581	1,809	3,356
Summer Athletic Camp - Girls	3,163	13,260	9,802	6,621
Valley Fair Fund	480	768	943	305
Volleyball	2,253	8,388	8,442	2,199
Washington DC Trip	1	-	-	1
West Connection	18	-	-	18
Wrestling	78	-	-	78
Yell Club	54	-	45	9
TOTAL WEST HIGH	<u>226,199</u>	<u>354,215</u>	<u>452,208</u>	<u>128,206</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, 2014**

	Balance 6/30/2013	Receipts	Disbursements	Balance 6/30/2014
EAST HIGH				
Arboretum Project	\$ 4,427	\$ 78	\$ -	\$ 4,505
Art Club	2,260	2,209	1,776	2,693
Astronomy Club	1,063	329	240	1,152
AVID Club	-	351	-	351
Band	5,875	41,852	47,578	149
Baseball Fund	8,911	6,104	11,029	3,986
Black 7 Team	2,078	1,076	1,508	1,646
Black 8 Team	1,483	1,421	1,071	1,833
Boys Basketball	6,224	8,142	10,943	3,423
Boys Cross Country	447	1,361	598	1,210
Boys Golf	1,009	2,986	2,433	1,562
Boys Hockey Fund	217	2,254	2,415	56
Boys Soccer	661	4,317	3,420	1,558
Boys Tennis	311	-	300	11
Boys and Girls Swim Fund	2,031	3,249	5,171	109
Choir	18,615	90,188	98,072	10,731
Climbing Wall	291	-	-	291
Dance Company	-	740	688	52
DECA Conference	98	-	-	98
Distributive Education Club of America	112	8,616	116	8,612
Drama Fund	4,783	9,468	8,448	5,803
Environthon	12	-	12	-
Fashion Travel	489	11,105	11,042	552
Football	3,621	6,437	8,811	1,247
Future Homemakers of America	14	-	-	14
Girls Basketball	395	2,755	1,608	1,542
Girls Cross Country	418	390	389	419
Girls Golf	743	610	619	734
Girls Hockey	59	5,778	1,978	3,859
Girls Soccer	2,112	5,278	5,575	1,815
Girls Softball	5,410	3,281	6,418	2,273
Girls Swim	-	4,082	2,639	1,443
Girls Tennis	16	296	312	-
Gold 7 Team	2,105	1,081	1,431	1,755
Gold 8 Team	2,020	737	1,040	1,717
Gymnastics	273	3,865	3,524	614
Hall of Fame	207	640	786	61
Interest, Student Investment	-	716	716	-
Junior High Activity	4,788	393	2,190	2,991
Junior High Author Day	846	-	-	846

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, 2014**

	Balance 6/30/2013	Receipts	Disbursements	Balance 6/30/2014
EAST HIGH (CONTINUED)				
Junior High Choir	\$ 1,419	250	568	\$ 1,101
Junior High Project Right Start	2,302	621	372	2,551
Junior High Science Club	1,961	-	-	1,961
Junior High Student Council	3,095	1,106	1,167	3,034
Junior High Yearbook	4,213	2,463	3,359	3,317
Key Club	-	150	30	120
Knowledge Bowl	-	580	204	376
"M" Club	8,768	4,772	7,457	6,083
Math League	375	-	-	375
Media	81	-	-	81
National Honor Society	815	540	528	827
Orchestra	1,938	34,084	35,841	181
Outdoor Education	424	1,095	1,489	30
Photo Club	1,605	-	-	1,605
Prom Fund	1,723	9,934	8,887	2,770
Reading Rewards	39	-	-	39
SADD	988	-	-	988
Science Club	67	-	67	-
Senior Class	381	715	706	390
Social Studies	156	-	-	156
Speech/Debate	1,726	4,464	4,238	1,952
SPIRIT	8,571	18,011	9,492	17,090
Student Council	494	6,748	6,293	949
Table Tennis	246	-	-	246
Track and Field	687	-	437	250
VEX Robotics	-	500	487	13
Volleyball	2,224	749	2,859	114
World Language Club	666	3,540	3,775	431
Wrestling Fund	3,719	2,238	1,675	4,282
XYZ Club	70	-	-	70
Youth Services	159	478	544	93
TOTAL EAST HIGH	<u>133,336</u>	<u>325,223</u>	<u>335,371</u>	<u>123,188</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, 2014**

	Balance 6/30/2013	Receipts	Disbursements	Balance 6/30/2014
OTHER				
Adult Education Store	\$ 579	\$ 5,638	\$ 5,795	\$ 422
Bridges	98	-	-	98
Central High School Store	1,089	1,519	993	1,615
Dakota Meadows Student Recognition	3,837	882	10	4,709
Dakota Meadows Diversity Program	202	-	-	202
Dakota Meadows Author Day	651	-	-	651
Dakota Meadows Band	93	596	555	134
Dakota Meadows Choir Fund	600	-	-	600
Dakota Meadows Courage Retreat	17	-	-	17
Dakota Meadows Drama Club	405	-	-	405
Dakota Meadows Kasota Trail	168	1,700	1,278	590
Dakota Meadows Mankato Trail	2,032	3,509	4,593	948
Dakota Meadows Minneopa Trail	1,043	458	300	1,201
Dakota Meadows Orchestra	10	-	-	10
Dakota Meadows Sakatah Trail	697	2,991	2,809	879
Dakota Meadows Seventh Grade Transition	1,579	715	813	1,481
Dakota Meadows Student Council	1,952	3,281	2,839	2,394
Dakota Meadows Student Funds	7,492	3,523	2,886	8,129
Dakota Meadows Yearbook	1,810	6,597	3,728	4,679
Day Treatment	500	-	-	500
Debate	3,091	3,297	1,493	4,895
District Science Boards	142	790	932	-
Eagle Lake Elementary	5,251	2,207	-	7,458
Elementary Child	1,314	2,546	108	3,752
Franklin Student Council	2,053	500	322	2,231
Garfield Student Council	1,613	6,051	6,315	1,349
Guthrie District Transportation	559	13,920	14,479	-
Hard of Hearing	2,440	1,000	1,322	2,118
Hoover Student Council	443	1,685	1,500	628
HOSA	2,784	5,228	4,429	3,583
Jefferson Elementary	88	921	547	462
Monroe Student Council	295	-	177	118
Roosevelt Student Council	598	1,009	1,213	394
State Capital Trips	3,109	6,629	7,449	2,289
Washington PE	434	-	200	234
Washington Student Council	465	2,040	2,096	409
TOTAL OTHER	<u>49,533</u>	<u>79,232</u>	<u>69,181</u>	<u>59,584</u>
GRAND TOTAL	<u>\$ 409,068</u>	<u>\$ 758,670</u>	<u>\$ 856,760</u>	<u>\$ 310,978</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, 2014**

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.

(This page intentionally left blank)



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

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, 2014, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated October 4, 2014. 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 2014-005. 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 4, 2014

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND RESPONSES –
STUDENT ACTIVITY FUNDS
JUNE 30, 2014**

Finding: 2014-005 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 September 30, 2014.

Plan to Monitor Completion of CAP:

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