

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

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INDEPENDENT SCHOOL DISTRICT NO. 77
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INTRODUCTORY SECTION

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2013**

BOARD OF EDUCATION

Ann Hendricks	Chairperson
Jodi Sapp	Vice Chairperson
Kristi Schuck	Director
Kinney Eberhart	Director
Judi Brandon	Clerk
Tom Rekstein	Treasurer
Sara Hansen	Director

ADMINISTRATION

Sheri Allen	Superintendent
Jerry Kolander	Director of Business Affairs

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 77, as of and for the year ended June 30, 2013, 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, 2013, and the respective changes in financial position and cash flows, where applicable, and budgetary comparison for General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Independent School District No. 77's 2012 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 22, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 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.

Board of Education
Independent School District No. 77

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013 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.

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

CliftonLarsonAllen LLP

Austin, Minnesota
October 7, 2013

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REQUIRED SUPPLEMENTARY INFORMATION

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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, 2013. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-2013 fiscal year include the following:

- The District's General Fund Balance increased from \$14,225,814 on June 30, 2012 to \$14,790,091 on June 30, 2013. Increasing enrollment and tight expenditure controls increased the fund balances to prepare the district for uncertain future funding.
- Food Service Fund Balance increased from \$1,124,325 on June 30, 2012 to \$1,256,891 on June 30, 2013.
- The Community Service Fund Balance increased from \$847,158 on June 30, 2012 to \$1,052,590 on June 30, 2013.

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, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was \$29,762,188 on June 30, 2013.

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

	Governmental Activities		Percentage Change
	2013	2012	
Current and Other Assets	\$ 45,863,599	\$ 44,587,517	2.86%
Capital and Non-Current Assets	57,440,668	58,572,187	-1.93%
Total Assets	103,304,267	103,159,704	0.14%
Current Liabilities	23,719,193	23,232,467	2.10%
Long-Term Liabilities	49,822,886	53,687,027	-7.20%
Total Liabilities	73,542,079	76,919,494	-4.39%
Net Position			
Net Investment in Capital Assets	25,342,087	23,211,223	9.18%
Restricted	8,904,681	7,917,577	12.47%
Unrestricted	(4,484,580)	(4,888,590)	-8.26%
Total Net Position	\$ 29,762,188	\$ 26,240,210	13.42%

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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
	2013	2012	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 4,811,446	\$ 4,475,786	7.50%
Operating Grants and Contributions	23,107,688	20,069,972	15.14%
Capital Grants and Contributions	834,782	798,449	4.55%
<u>General Revenues</u>			
Property Taxes	18,310,255	17,129,424	6.89%
Unrestricted State Aid	43,327,309	44,036,076	-1.61%
Investment Earnings	8,389	9,305	-9.84%
Other	139,945	262,419	-46.67%
Total Revenues	90,539,814	86,781,431	
Expenses			
Administration	2,725,472	2,626,417	3.77%
District Support Services	1,283,978	1,146,091	12.03%
Regular Instruction	39,100,487	37,230,805	5.02%
Vocational Education Instruction	920,334	809,845	13.64%
Special Education Instruction	15,711,734	15,357,366	2.31%
Instructional Support Services	4,891,759	5,170,459	-5.39%
Pupil Support Services	4,890,757	4,899,559	-0.18%
Sites and Buildings	6,847,355	6,445,027	6.24%
Fiscal and Other Fixed Cost Programs	217,058	153,377	41.52%
Food Service	3,521,812	3,376,788	4.29%
Community Service	4,854,277	4,423,688	9.73%
Interest and Fiscal Charges on Long-Term Liabilities	2,052,813	2,170,602	-5.43%
Total Expenses	87,017,836	83,810,024	3.83%
Increase in Net Position	3,521,978	2,971,407	
Beginning Net Position	26,240,210	23,268,803	
Ending Net Position	\$ 29,762,188	\$ 26,240,210	

Changes in Net Position

The District's total revenues were \$90,539,814 for the year ended June 30, 2013. Unrestricted state aid accounted for 48%, property taxes accounted for 20%, 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, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$87,017,836. Direct instruction related costs accounted for 64%, 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 2% 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 2013

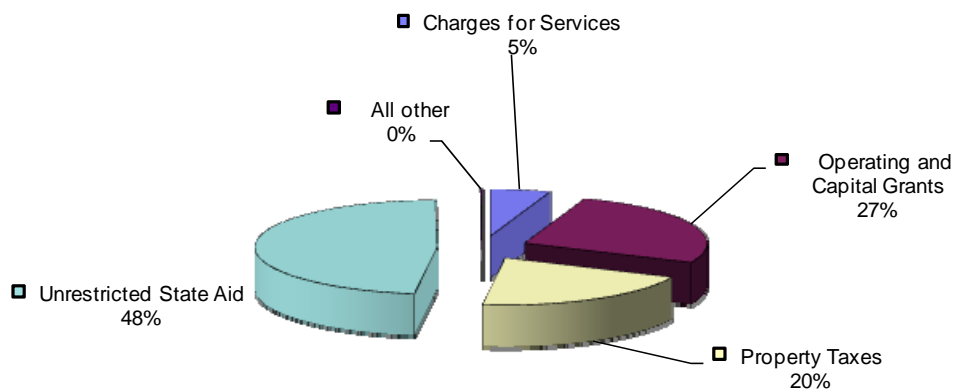
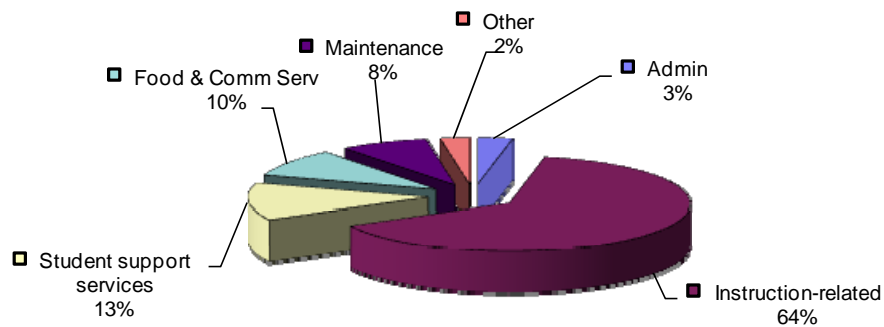


Figure A-2 District Expenses for Fiscal 2013



**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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>		Percentage Change	<u>Net Cost of Services</u>		Percentage Change
	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
Administration	\$ 2,725,472	\$ 2,626,417	3.77%	\$ 2,724,792	\$ 2,203,487	23.66%
District Support Services	1,283,978	1,146,091	12.03%	1,262,865	1,128,333	11.92%
Regular Instruction	39,100,487	37,230,805	5.02%	30,631,536	30,939,925	-1.00%
Vocational Education Instruction	920,334	809,845	13.64%	878,834	786,345	11.76%
Special Education Instruction	15,711,734	15,357,366	2.31%	4,174,581	4,767,955	-12.45%
Instructional Support Services	4,891,759	5,170,459	-5.39%	4,619,239	4,896,941	-5.67%
Pupil Support Services	4,890,757	4,899,559	-0.18%	4,593,574	4,623,894	-0.66%
Sites and Buildings	6,847,355	6,445,027	6.24%	6,389,110	5,992,348	6.62%
Fiscal and Other Fixed Cost Programs	217,058	153,377	41.52%	217,058	153,377	41.52%
Food Service	3,521,812	3,376,788	4.29%	(186,765)	(19,560)	854.83%
Community Service	4,854,277	4,423,688	9.73%	906,283	822,170	10.23%
Interest and Fiscal Charges on Long-Term Liabilities	2,052,813	2,170,602	-5.43%	2,052,813	2,170,602	-5.43%
Total	<u>\$ 87,017,836</u>	<u>\$ 83,810,024</u>	3.83%	<u>\$ 58,263,920</u>	<u>\$ 58,465,817</u>	-0.35%

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 \$951,651 for the year ended June 30, 2013. This is primarily a result of increasing enrollment and tight expenditure controls.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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 has remained stable with increases in each of the last five years.

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

Grade	2009	2010	2011	2012	2013
EC	109	118	121	117	115
HK	73	113	99	104	90
Kdgt.	499	509	513	529	593
1-3	1,742	1,747	1,780	1,815	1,842
4-6	1,601	1,609	1,695	1,704	1,711
7-12	3,116	3,093	3,166	3,210	3,223
Total K-12 ADM	7,140	7,189	7,374	7,479	7,574
ADM Change	N/A	49	185	105	95
Percent Change	N/A	0.7%	2.6%	1.4%	1.3%

Pre-school population has increased steadily; certain elementary school sites are encountering space shortages which prompted the District to propose and pass a bond referendum in 2008 for a new elementary school. Secondary enrollment had a temporary decline as some of the smaller classes progressed through the grades. Increasing elementary enrollment improved the overall average daily membership.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Local Sources				
Property Taxes	\$ 10,991,538	\$ 10,444,124	\$ 547,414	5.2%
Earnings on Investments	5,312	3,139	2,173	69.2%
Other	1,929,088	1,905,938	23,150	1.2%
State Sources	59,586,761	57,196,774	2,389,987	4.2%
Federal Sources	2,906,966	2,919,938	(12,972)	-0.4%
Total General Fund Revenue	<u>\$ 75,419,665</u>	<u>\$ 72,469,913</u>	<u>\$ 2,949,752</u>	4.1%

Total General Fund Revenue increased by \$2,949,752 or 4.1% 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, \$421,618 was the property tax shift amount recorded instead of state source payments. 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, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Salaries	\$ 45,850,498	\$ 44,435,359	\$ 1,415,139	3.2%
Employee Benefits	15,244,008	14,161,878	1,082,130	7.6%
Purchased Services	6,984,688	7,173,188	(188,500)	-2.6%
Supplies and Materials	2,904,837	2,776,928	127,909	4.6%
Capital Expenditures	3,590,031	2,536,070	1,053,961	41.6%
Other Expenditures	388,024	494,502	(106,478)	-21.5%
Total Expenditures	<u>\$ 74,962,086</u>	<u>\$ 71,577,925</u>	<u>\$ 3,384,161</u>	4.7%

Total General Fund Expenditures increased \$3,384,161 or about 4.7% from the previous year.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

GENERAL FUND (CONTINUED)

The total fund balance at June 30, 2013, is \$14,790,091. Of this amount \$4,669,087 is restricted for specific purposes by state requirements, \$690,000 is assigned for severance.

In our analysis of significant variances between original and final budget amounts and between final budget amounts and actual results in the General Fund, there are no variances in revenues or expenditures that will have a significant effect on future services or liquidity. The positive budgetary fluctuation in state aid revenues is due to the District's conservative approach in budgeting state aids in the current economic environment.

Food Service Fund

The Food Service Fund accounts for the activities related to providing child nutrition services to support the K-12 academic program. The fund operates with the goal that revenues exceed expenditures on day-to-day school breakfast and lunch operations so that the excess can be used to systematically replace and upgrade kitchen equipment at all school kitchen locations. By operating in this manner, the child nutrition services program is self-supporting and does not rely upon resources from K-12 instruction programs other than for use of school facilities.

The Food Service Fund Balance at June 30, 2013 is \$1,256,891, an increase of \$132,566 from June 30, 2012.

Food Service Fund Revenues for the year ended June 30, 2013 totaled \$3,709,130. This was an increase of \$312,055 or 9.2% from the year ended June 30, 2012.

Food Service Fund Expenditures for the year ended June 30, 2013 totaled \$3,576,564. This was an increase of \$247,041 or 7.4% from the year ended June 30, 2012.

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, 2013 is \$1,052,590, an increase of \$205,432 from June 30, 2012.

Community Service Fund Revenues for the year ended June 30, 2013 totaled \$4,826,702. This was an increase of \$433,602 or 9.9% from the year ended June 30, 2012.

Community Service Fund Expenditures for the year ended June 30, 2013 totaled \$4,621,270. This was an increase of \$247,878 or 5.6% from the year ended June 30, 2012.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2013, the District had invested over \$57.4 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 \$2,459,512.

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

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Land	\$ 4,120,830	\$ 4,120,830	0.0%
Construction in Progress	482,437	98,815	388.2%
Land Improvements	4,718,188	4,372,804	7.9%
Buildings and Improvements	81,766,580	81,556,967	0.3%
Equipment	5,440,826	5,071,959	7.3%
Less: Accumulated Depreciation	<u>(39,088,193)</u>	<u>(36,649,188)</u>	<u>6.7%</u>
Total	<u><u>\$ 57,440,668</u></u>	<u><u>\$ 58,572,187</u></u>	<u><u>-1.9%</u></u>

Debt Service Fund

The Debt Service Fund exists to service the principal and interest payments on long-term debt issued by the District to construct school facilities or acquire school equipment. Annual levies will provide revenue at a rate of 105% of pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payments can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

The balance of \$2,271,877 as of June 30, 2013 with the payable 2013 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, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had \$48,630,182 in general obligation bonds, bond premium/discount and lease purchase agreements.

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

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 47,035,000	\$ 51,385,000	-8.47%
Bond Premium/Discount	120,380	143,206	-15.94%
Lease Purchase Agreement	1,474,802	1,537,474	-4.08%
Severance Benefits Payable	5,387,228	5,617,661	-4.10%
Compensated Absences Payable	427,525	481,275	-11.17%
Total	<u><u>\$ 54,444,935</u></u>	<u><u>\$ 59,164,616</u></u>	<u><u>-7.98%</u></u>
Long-Term Liabilities:			
Due Within One Year	\$ 4,622,049	\$ 5,477,589	
Due in More Than One Year	49,822,886	53,687,027	
	<u><u>\$ 54,444,935</u></u>	<u><u>\$ 59,164,616</u></u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF NET POSITION
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	Governmental Activities	
	2013	2012
ASSETS		
Cash and Investments	\$ 19,375,562	\$ 5,172,055
Cash and Investments Held by Trustee	-	8,247
Receivables		
Property Taxes	8,756,872	9,054,883
Other Governments	9,653,774	21,373,995
Other	285,566	190,093
Prepaid Items	10,618	-
Inventories	43,400	48,399
Prefunded Other Post Employment Benefit Obligations	7,648,845	8,641,135
Bond Issuance Costs, Net	88,962	98,710
Capital Assets		
Land and Construction in Progress	4,603,267	4,219,645
Other Capital Assets, Net of Depreciation	52,837,401	54,352,542
Total Assets	<u>103,304,267</u>	<u>103,159,704</u>
LIABILITIES		
Salaries and Payroll Deductions Payable	4,090,278	2,839,313
Accounts and Contracts Payable	2,191,031	1,329,829
Accrued Interest	829,178	891,299
Due to Other Governmental Units	1,458	1,586
Unearned Revenue		
Property Taxes	11,517,731	12,186,367
Local Sources	467,468	506,484
Long-Term Liabilities		
Portion Due Within One Year	4,622,049	5,477,589
Portion Due in More Than One Year	49,822,886	53,687,027
Total Liabilities	<u>73,542,079</u>	<u>76,919,494</u>
NET POSITION		
Net Investment in Capital Assets	25,342,087	23,211,223
Restricted for:		
Operating Capital Purposes	2,546,588	2,102,700
State-Mandated Restrictions	2,296,473	2,278,928
Food Service	1,256,891	1,124,325
Community Service	1,064,507	859,872
Debt Service	1,740,222	1,551,752
Unrestricted	(4,484,580)	(4,888,590)
Total Net Position	<u>\$ 29,762,188</u>	<u>\$ 26,240,210</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 77
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2013
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

2013			
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 2,725,472	\$ -	\$ -
District Support Services	1,283,978	-	-
Regular Instruction	39,100,487	556,119	7,728,657
Vocational Education Instruction	920,334	-	41,500
Special Education Instruction	15,711,734	19,930	11,515,643
Instructional Support Services	4,891,759	-	-
Pupil Support Services	4,890,757	-	291,202
Sites and Buildings	6,847,355	109,512	-
Fiscal and Other Fixed Cost Programs	217,058	-	-
Food Service	3,521,812	1,573,674	2,134,903
Community Service	4,854,277	2,552,211	1,395,783
Interest and Fiscal Charges on Long-Term Liabilities	2,052,813	-	-
Total School District	\$ 87,017,836	\$ 4,811,446	\$ 23,107,688

General Revenues

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

See accompanying Notes to Financial Statements.

	2013	2012
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
\$ 680	\$ (2,724,792)	\$ (2,203,487)
21,113	(1,262,865)	(1,128,333)
184,175	(30,631,536)	(30,939,925)
-	(878,834)	(786,345)
1,580	(4,174,581)	(4,767,955)
272,520	(4,619,239)	(4,896,941)
5,981	(4,593,574)	(4,623,894)
348,733	(6,389,110)	(5,992,348)
-	(217,058)	(153,377)
-	186,765	19,560
-	(906,283)	(822,170)
-	(2,052,813)	(2,170,602)
<u>\$ 834,782</u>	<u>(58,263,920)</u>	<u>(58,465,817)</u>

10,972,863	10,387,249
781,482	639,201
6,555,910	6,102,974
43,327,309	44,036,076
8,389	9,305
139,945	262,419
<u>61,785,898</u>	<u>61,437,224</u>
3,521,978	2,971,407
<u>26,240,210</u>	<u>23,268,803</u>
<u>\$ 29,762,188</u>	<u>\$ 26,240,210</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 11,641,572	\$ 1,124,645	\$ 1,153,183
Cash and Investments Held by Trustee	-	-	-
Receivables			
Current Property Taxes	5,422,013	-	381,983
Delinquent Property Taxes	176,076	-	11,917
Due from Minnesota Department of Education	6,372,887	2,843	172,428
Due from Federal through Minnesota Department of Education	2,888,489	183,974	27,708
Other Receivables	265,060	7,163	13,343
Due from Other Funds	-	-	-
Prepaid Items	10,618	-	-
Inventory	-	43,400	-
Total Assets	<u>\$ 26,776,715</u>	<u>\$ 1,362,025</u>	<u>\$ 1,760,562</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Salaries and Payroll Deductions Payable	\$ 3,958,582	\$ 10,111	\$ 121,585
Accounts and Contracts Payable	1,889,994	2,724	16,700
Due to Other Governmental Units	1,458	-	-
Due to Other Funds	102,202	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	5,637,527	-	403,386
Delinquent Property Taxes	176,076	-	11,917
Local Sources	220,785	92,299	154,384
Total Liabilities	<u>11,986,624</u>	<u>105,134</u>	<u>707,972</u>
Fund Balance			
Nonspendable:			
Prepaid Items	10,618	-	-
Inventory	-	43,400	-
Restricted:			
Staff Development	195,970	-	-
Health and Safety	(173,974)	-	-
Deferred Maintenance	376,179	-	-
Operating Capital	2,546,588	-	-
Learning and Development	1,157,857	-	-
Basic Skills Programs	566,467	-	-
Safe Schools - Crime	-	-	-
Community Education Programs	-	-	583,848
Early Childhood and Family Education Programs	-	-	237,019
School Readiness	-	-	37,540
Adult Basic Education	-	-	194,183
Other Purposes	-	1,213,491	-
Assigned:			
Separation/Retirement Benefits	690,000	-	-
Unassigned	9,420,386	-	-
Total Fund Balance	<u>14,790,091</u>	<u>1,256,891</u>	<u>1,052,590</u>
Total Liabilities and Fund Balance	<u>\$ 26,776,715</u>	<u>\$ 1,362,025</u>	<u>\$ 1,760,562</u>

See accompanying Notes to Financial Statements.

Funds			Total Governmental	
Capital Projects	Debt Service	OPEB Debt Service	Funds	
			2013	2012
\$ -	\$ 3,837,834	\$ 1,430,531	\$ 19,187,765	\$ 5,172,055
-	-	-	-	8,247
-	1,490,649	1,178,180	8,472,825	8,742,032
-	83,681	12,373	284,047	312,851
-	4,592	853	6,553,603	20,502,264
-	-	-	3,100,171	871,731
-	-	-	285,566	190,093
-	-	-	-	2,249,091
-	-	-	10,618	-
-	-	-	43,400	48,399
<u>\$ -</u>	<u>\$ 5,416,756</u>	<u>\$ 2,621,937</u>	<u>\$ 37,937,995</u>	<u>\$ 38,096,763</u>
\$ -	\$ -	\$ -	\$ 4,090,278	\$ 2,839,313
-	2,175	200	1,911,793	1,107,299
-	-	-	1,458	1,586
-	-	-	102,202	2,531,496
-	3,059,023	2,417,795	11,517,731	12,186,367
-	83,681	12,373	284,047	312,851
-	-	-	467,468	506,484
-	3,144,879	2,430,368	18,374,977	19,485,396
-	-	-	10,618	-
-	-	-	43,400	48,399
-	-	-	195,970	179,425
-	-	-	(173,974)	(173,377)
-	-	-	376,179	753,139
-	-	-	2,546,588	2,102,700
-	-	-	1,157,857	958,694
-	-	-	566,467	379,929
-	-	-	-	7,741
-	-	-	583,848	418,869
-	-	-	237,019	195,112
-	-	-	37,540	40,354
-	-	-	194,183	192,823
-	2,271,877	191,569	3,676,937	3,489,996
-	-	-	690,000	690,000
-	-	-	9,420,386	9,327,563
-	2,271,877	191,569	19,563,018	18,611,367
<u>\$ -</u>	<u>\$ 5,416,756</u>	<u>\$ 2,621,937</u>	<u>\$ 37,937,995</u>	<u>\$ 38,096,763</u>

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	2013	2012
Total Fund Balance for Governmental Funds	\$ 19,563,018	\$ 18,611,367
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	482,437	98,815
Land Improvements, Net of Accumulated Depreciation	3,239,050	3,098,319
Buildings and Improvements, Net of Accumulated Depreciation	47,381,324	49,093,188
Equipment, Net of Accumulated Depreciation	2,217,027	2,161,035
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 revenue in the funds.		
	284,047	312,851
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(829,178)	(891,299)
Bond issuance costs are reported as expenditures in the governmental funds.		
	88,962	98,710
Contributions in excess of the OPEB liability recognized to date, are not current financial resources and therefore are not reported at the fund level.		
	7,648,845	8,641,135
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:		
	10,761	59,875
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	(47,035,000)	(51,385,000)
Unamortized Premiums	(208,179)	(239,301)
Unamortized Discounts	87,799	96,095
Obligations Under Capital Leases	(1,474,802)	(1,537,474)
Severance Benefits Payable	(5,387,228)	(5,617,661)
Compensated Absences Payable	(427,525)	(481,275)
Total Net Position of Governmental Activities	\$ 29,762,188	\$ 26,240,210

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, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 10,991,538	\$ -	\$ 782,279
Earnings on Investments	5,312	553	406
Other	1,929,088	1,573,674	2,562,898
State Sources	59,586,761	148,763	1,275,066
Federal Sources	2,906,966	1,986,140	206,053
Total Revenues	<u>75,419,665</u>	<u>3,709,130</u>	<u>4,826,702</u>
EXPENDITURES			
Current			
Administration	2,635,517	-	-
District Support Services	1,224,302	-	-
Regular Instruction	36,342,680	-	-
Vocational Education Instruction	855,153	-	-
Special Education Instruction	15,300,311	-	-
Instructional Support Services	4,201,887	-	-
Pupil Support Services	4,963,830	-	-
Sites and Buildings	5,632,561	-	-
Fiscal and Other Fixed Cost Programs	215,814	-	-
Food Service	-	3,448,519	-
Community Service	-	-	4,553,447
Capital Outlay	3,590,031	128,045	67,823
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>74,962,086</u>	<u>3,576,564</u>	<u>4,621,270</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	457,579	132,566	205,432
OTHER FINANCING SOURCES (USES)			
Capital Lease Proceeds	99,640	-	-
Insurance Recovery Proceeds	7,058	-	-
Judgments for School Districts	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>106,698</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	564,277	132,566	205,432
Fund Balances - Beginning	<u>14,225,814</u>	<u>1,124,325</u>	<u>847,158</u>
Fund Balances - Ending	<u>\$ 14,790,091</u>	<u>\$ 1,256,891</u>	<u>\$ 1,052,590</u>

See accompanying Notes to Financial Statements.

Funds			Total Governmental	
Capital Projects	Debt Service	OPEB Debt Service	Funds	
			2013	2012
\$ -	\$ 5,538,332	\$ 1,026,910	\$ 18,339,059	\$ 17,218,698
90	1,828	239	8,428	9,305
-	-	-	6,065,660	5,773,354
-	32,645	6,058	61,049,293	58,975,388
-	-	-	5,099,159	4,830,856
90	5,572,805	1,033,207	90,561,599	86,807,601
-	-	-	2,635,517	2,572,963
-	-	-	1,224,302	1,085,482
-	-	-	36,342,680	34,329,180
-	-	-	855,153	812,725
-	-	-	15,300,311	15,132,214
-	-	-	4,201,887	4,314,330
-	-	-	4,963,830	4,942,899
-	-	-	5,632,561	5,893,494
-	-	1,244	217,058	153,377
-	-	-	3,448,519	3,234,536
-	-	-	4,553,447	4,342,120
77,470	-	-	3,863,369	5,332,825
-	3,825,000	525,000	4,350,000	4,210,000
-	1,669,142	458,870	2,128,012	2,257,222
77,470	5,494,142	985,114	89,716,646	88,613,367
(77,380)	78,663	48,093	844,953	(1,805,766)
-	-	-	99,640	-
-	-	-	7,058	-
-	-	-	-	63,104
-	8,296	-	8,296	500,000
(8,296)	-	-	(8,296)	(500,000)
(8,296)	8,296	-	106,698	63,104
(85,676)	86,959	48,093	951,651	(1,742,662)
85,676	2,184,918	143,476	18,611,367	20,354,029
\$ -	\$ 2,271,877	\$ 191,569	\$ 19,563,018	\$ 18,611,367

**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, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	2013	2012
Net Change in Fund Balance-Total Governmental Funds	\$ 951,651	\$ (1,742,662)
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	1,345,936	3,547,791
Loss on Disposal of Capital Assets	(17,943)	(3,067)
Depreciation Expense	(2,459,512)	(2,344,395)
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	(629)	1,099
Principal Payments - Capital Leases	162,312	149,327
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 issuance costs and premiums when debt is first issued, whereas these amounts are deferred and 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:		
Repayment of Bond Principal	4,350,000	4,210,000
Change in Accrued Interest Expense - General Obligation Bonds	62,750	56,759
Amortization of Bond Issuance Costs	(9,748)	(11,727)
Amortization of Bond Premium	31,122	48,785
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 deferred in the funds.		
	(28,804)	(89,274)
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).		
	(992,290)	(935,416)
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).		
	284,183	119,999
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.		
	(49,114)	(27,516)
Change in Net Position of Governmental Activities	\$ 3,521,978	\$ 2,971,407

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, 2013**

	<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	\$ 10,500,360	\$ 11,093,154	\$ 10,991,538	\$ (101,616)
Earnings on Investments	-	-	5,312	5,312
Other	1,766,600	1,785,600	1,929,088	143,488
State Sources	58,732,930	58,597,057	59,586,761	989,704
Federal Sources	<u>2,808,460</u>	<u>2,808,460</u>	<u>2,906,966</u>	<u>98,506</u>
Total Revenues	<u>73,808,350</u>	<u>74,284,271</u>	<u>75,419,665</u>	<u>1,135,394</u>
EXPENDITURES				
Current:				
Administration	2,046,217	2,674,524	2,635,517	(39,007)
District Support Services	1,052,255	1,295,683	1,224,302	(71,381)
Regular Instruction	27,762,444	35,832,653	36,342,680	510,027
Vocational Education Instruction	839,133	868,293	855,153	(13,140)
Special Education Instruction	12,824,307	15,768,852	15,300,311	(468,541)
Instructional Support Services	3,897,528	4,495,229	4,201,887	(293,342)
Pupil Support Services	4,502,025	4,956,820	4,963,830	7,010
Sites and Buildings	4,796,410	5,578,469	5,632,561	54,092
Fiscal and Other Fixed Cost Programs	13,965,800	1,119,044	215,814	(903,230)
Capital Outlay	<u>3,321,529</u>	<u>3,434,215</u>	<u>3,590,031</u>	<u>155,816</u>
Total Expenditures	<u>75,007,648</u>	<u>76,023,782</u>	<u>74,962,086</u>	<u>(1,061,696)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,199,298)	(1,739,511)	457,579	2,197,090
OTHER FINANCING SOURCES				
Capital Lease Proceeds	-	-	99,640	99,640
Insurance Recovery Proceeds	<u>-</u>	<u>3,000</u>	<u>7,058</u>	<u>4,058</u>
Total Other Financing Sources	<u>-</u>	<u>3,000</u>	<u>106,698</u>	<u>103,698</u>
Net Change in Fund Balances	<u>\$ (1,199,298)</u>	<u>\$ (1,736,511)</u>	564,277	<u>\$ 2,300,788</u>
FUND BALANCE				
Beginning of Year			<u>14,225,814</u>	
End of Year			<u>\$ 14,790,091</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, 2013**

	<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	\$ 553	\$ 353
Other - Primarily Meal Sales	1,581,000	1,562,500	1,573,674	11,174
State Sources	155,000	160,000	148,763	(11,237)
Federal Sources	1,840,500	1,768,000	1,986,140	218,140
Total Revenues	<u>3,576,700</u>	<u>3,490,700</u>	<u>3,709,130</u>	<u>218,430</u>
EXPENDITURES				
Current				
Food Service	3,410,026	3,390,026	3,448,519	58,493
Capital Outlay	130,000	130,000	128,045	(1,955)
Total Expenditures	<u>3,540,026</u>	<u>3,520,026</u>	<u>3,576,564</u>	<u>56,538</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 36,674</u>	<u>\$ (29,326)</u>	132,566	<u>\$ 161,892</u>
FUND BALANCE				
Beginning of Year			<u>1,124,325</u>	
End of Year			<u>\$ 1,256,891</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, 2013**

	<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	\$ 749,254	\$ 784,970	\$ 782,279	\$ (2,691)
Earnings on Investments	500	500	406	(94)
Other - Primarily Tuition and Fees	2,122,100	2,154,054	2,562,898	408,844
State Sources	1,240,046	1,235,970	1,275,066	39,096
Federal Sources	144,554	141,856	206,053	64,197
Total Revenues	<u>4,256,454</u>	<u>4,317,350</u>	<u>4,826,702</u>	<u>509,352</u>
EXPENDITURES				
Current				
Community Service	4,269,350	4,328,070	4,553,447	225,377
Capital Outlay	21,800	29,300	67,823	38,523
Total Expenditures	<u>4,291,150</u>	<u>4,357,370</u>	<u>4,621,270</u>	<u>263,900</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (34,696)</u>	<u>\$ (40,020)</u>	205,432	<u>\$ 245,452</u>
FUND BALANCE				
Beginning of Year			<u>847,158</u>	
End of Year			<u>\$ 1,052,590</u>	

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	Governmental Activities - Internal Service Funds	
	2013	2012
ASSETS		
Current Assets		
Cash and Investments	\$ 187,797	\$ -
Due From Other Funds	102,202	282,405
Total Assets	289,999	282,405
LIABILITIES		
Current Liabilities		
Claims Payable for Health and Dental Benefits	279,238	222,530
Total Current Liabilities	279,238	222,530
NET POSITION		
Unrestricted	10,761	59,875
Total Net Position	\$ 10,761	\$ 59,875

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, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	Governmental Activities - Internal Service Funds	
	2013	2012
OPERATING REVENUES		
Charges for Services	\$ 513,932	\$ 462,553
Total Operating Revenues	513,932	462,553
OPERATING EXPENSES		
Dental Insurance Claim Payments	510,589	443,057
General Administration Fees	52,418	47,012
Total Operating Expenses	563,007	490,069
Operating Loss	(49,075)	(27,516)
NONOPERATING INCOME		
Earnings on Investments	(39)	-
Change in Net Position	(49,114)	(27,516)
Total Net Position - Beginning	59,875	87,391
Total Net Position - Ending	\$ 10,761	\$ 59,875

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEARS ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	<u>Governmental Activities - Internal Service Funds</u>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 513,932	\$ 462,553
Payments for Administrative Costs	(52,418)	(47,012)
Payments for Medical Fees and Insurance Claims	(453,881)	(420,051)
Net Cash Provided (Used) by Operating Activities	<u>7,633</u>	<u>(4,510)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due From Other Funds	<u>180,203</u>	<u>(282,405)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	180,203	(282,405)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Paid	(39)	-
Net Increase (Decrease) in Cash and Cash Equivalents	<u>187,797</u>	<u>(286,915)</u>
Cash and Cash Equivalents - Beginning	<u>-</u>	<u>286,915</u>
Cash and Cash Equivalents - Ending	<u>\$ 187,797</u>	<u>\$ -</u>
Displayed on Statements of Net Position as:		
Cash and Investments	<u>\$ 187,797</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (49,075)	\$ (27,516)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Increase in Claims Payable	<u>56,708</u>	<u>23,006</u>
Total Adjustments	<u>56,708</u>	<u>23,006</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 7,633</u>	<u>\$ (4,510)</u>

See accompanying Notes to Financial Statements.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013**

	<u>Private- Purpose Trust</u>	<u>OPEB Benefit Trust</u>	<u>Agency Funds</u>
ASSETS			
Cash and Investments	\$ 152,556	\$ 13,354,227	\$ 687,365
Accounts Receivable	-	-	14,988
Total Assets	<u>152,556</u>	<u>13,354,227</u>	<u>\$ 702,353</u>
LIABILITIES			
Salaries and Payroll Deductions Payable	-	-	\$ 8,966
Accounts Payable and Due to Other Governments	3,600	-	693,387
Total Liabilities	<u>3,600</u>	<u>-</u>	<u>\$ 702,353</u>
NET POSITION			
Restricted for Payment of OPEB Benefits	-	13,354,227	
Restricted for Scholarships and Other Purposes	148,956	-	
Total Net Position	<u>\$ 148,956</u>	<u>\$ 13,354,227</u>	

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2013**

	<u>Private- Purpose Trust</u>	<u>OPEB Benefit Trust</u>
ADDITIONS		
Gifts and Donations	\$ 93,740	\$ -
Earnings on Investments	-	1,039,198
Total Additions	<u>93,740</u>	<u>1,039,198</u>
DEDUCTIONS		
Scholarships Awarded	16,171	-
Retirement Benefits	-	799,816
Administrative Costs	-	56,454
Total Deductions	<u>16,171</u>	<u>856,270</u>
Change in Net Position	77,569	182,928
Net Position - Beginning of Year	71,387	13,171,299
Net Position - End of Year	<u>\$ 148,956</u>	<u>\$ 13,354,227</u>

See accompanying Notes to Financial Statements.

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 77 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 77 (the District) is an instrumentality of the State of Minnesota established to function as an education institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. The Board of Education does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's Board of Education has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

C. Basic Financial Statement Presentation

The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the Fiduciary Funds. The Fiduciary Funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013**

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.

The District reports deferred revenue on its balance sheet – governmental funds. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Description of Funds

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

Major Governmental Funds

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Major Governmental Funds (Continued)

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

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes, state credits, and federal reimbursements.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for and the payment of, bond and loan principal, interest, and related costs.

OPEB Debt Service Fund – The Other Post Employment Benefit (OPEB) Debt Service Fund accounts for the accumulation of resources for and the payment of, bond principal, interest, and other costs related to the Other Post Employment Benefit Bonds.

Proprietary Fund

Internal Service Fund – The Internal Service Fund accounts for financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accounts for the District's dental self-insurance program.

Fiduciary Funds

Private-Purpose Trust Fund – The Private Purpose Trust Fund is used to account for trust arrangements under which the income benefits individuals. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donor.

OPEB Trust Fund – The Other Post Employment Benefit (OPEB) Trust Fund is used to account for resources set aside and held in an irrevocable trust arrangement to pay Other Post Employment Benefits. District contributions to this fund must be expensed to an operating fund.

Agency Fund – The Agency Fund is established to account for resources held for others in a custodial capacity. The District's Agency fund is used to account for the resources of All Season's Arena.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, Capital Projects, 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 and deposits in 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 trust funds and the agency fund, 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, 2013 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, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Prefunded Other Postemployment 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 deferred revenue (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 are then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. Certain other portions of the District's 2012 Pay 2013 levy, normally revenue for the 2013-14 fiscal year, are also advance recognized at June 30, 2013, 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 deferred 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, 2013, 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, 2013**

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, as well as issuance costs, are deferred and 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, if material, are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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, 2013**

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 2013 were \$485,856. A liability for severance and wellness benefits payable totaling \$5,387,228 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 \$1,295 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, 2013.

O. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance related 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, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Deferred Revenues

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported deferred revenues for property taxes levied for the subsequent year, and delinquent property taxes. The General Fund reported deferred revenue for grant revenues and donations collected in advance of expenditures, advertising contracts, and excess tax increment financing funds expected to be repaid. The Community Service Fund also reported deferred revenue for donations collected in advance of expenditures. In the Food Service Fund, revenues collected for student meals not used have been deferred.

Q. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers interest bearing accounts and deposits in the Minnesota Liquid School District Asset Fund (MSDLAF) to be cash and cash equivalents. Cash and cash equivalents are included in cash and investments.

R. 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.

S. Net Position

Net position represents the difference between assets and liabilities 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.

T. 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, 2012, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 Temporary 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, 2013 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

B. Investments

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

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

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

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At June 30, 2013, the District had the following investments:

External Investment Pool

	Amortized Cost
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 19,023,099
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	994,398
	\$ 20,017,497

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

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

The District also has the following investments:

	Fair Value
Mutual Funds - Equity	\$ 4,296,882
Mutual Funds - Fixed Income	9,051,649
First Amer Govt Oblig Fund CI Z Money Market	5,696
	\$ 13,354,227

Credit Risk related to these securities is as follows:

Type	Credit Rating
Mutual Funds - Equity	NR
Mutual Funds - Fixed Income	NR
First Amer Govt Oblig Fund CI Z Money Market	AAAm

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk.

The District has a formal investment policy that addresses permissible investments, portfolio diversification and instrument maturities. Investment maturities are scheduled to coincide with projected school district cash flow needs. Within these parameters, it is the District's policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses arising from rising interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate risk fluctuations is provided by the distribution of the District's investments by maturity. As of June 30, 2013, the District's investments have the following maturities:

Type	Fair Value	12 Months or Less
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$19,023,099	\$19,023,099
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	994,398	994,398
Mutual Funds - Equity	4,296,882	9,051,649
Mutual Funds - Fixed Income	9,051,649	4,296,882
First Amer Govt Oblig Fund Cl Z Money Market	5,696	5,696
	<u>\$ 33,371,724</u>	<u>\$ 33,371,724</u>

Custodial Credit Risk.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2013, 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 officer is responsible for investment decisions and activities under the direction of the Board of Education. The following is a list of investments which individually comprise more than 5% of the District's total investments:

Type	Amount	Percentage
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 19,023,099	57.00%
Metropolitan West Tr Bond I Fund	2,416,312	7.24%
Baird Core Plus Bond Fund Institute	2,395,194	7.18%
Pimco Total Return Fund	2,379,761	7.13%
Vanguard Total Stk Market Index Fd	2,364,570	7.09%

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

Deposits	\$ 196,796
Cash on Hand	1,190
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	19,023,099
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	994,398
Mutual Funds - Equity	4,296,882
Mutual Funds - Fixed Income	9,051,649
First Amer Govt Oblig Fund CI Z Money Market	5,696
	\$ 33,569,710

These amounts are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 19,375,562
Cash and Investments - Statement of Fiduciary Net Position	14,194,148
Total Cash and Investments	\$ 33,569,710

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 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	98,815	482,437	(98,815)	482,437
Total Capital Assets, Not Being Depreciated	4,219,645	482,437	(98,815)	4,603,267
Capital Assets, Being Depreciated				
Land Improvements	4,372,804	345,384	-	4,718,188
Buildings and Improvements	81,556,967	209,613	-	81,766,580
Equipment	5,071,959	407,317	(38,450)	5,440,826
Total Capital Assets, Being Depreciated	91,001,730	962,314	(38,450)	91,925,594
Accumulated Depreciation for				
Land Improvements	(1,274,485)	(204,653)	-	(1,479,138)
Buildings and Improvements	(32,463,779)	(1,921,477)	-	(34,385,256)
Equipment	(2,910,924)	(333,382)	20,507	(3,223,799)
Total Accumulated Depreciation	(36,649,188)	(2,459,512)	20,507	(39,088,193)
Total Capital Assets, Being Depreciated, Net	54,352,542	(1,497,198)	(17,943)	52,837,401
Governmental Activities Capital Assets, Net	\$ 58,572,187	\$ (1,014,761)	\$ (116,758)	\$ 57,440,668

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities		
Administration		\$ 1,853
District Support Services		4,177
Regular Instruction		2,275,138
Vocational Education Instruction		2,866
Special Education Instruction		3,245
Instructional Support Services		20,236
Pupil Support Services		45,099
Sites and Buildings		62,879
Food Service		36,035
Community Service		7,984
Total Depreciation Expense, Governmental Activities		<u><u>\$ 2,459,512</u></u>

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	\$ 260,000	\$ 4,420,000
8/7/2008	3.00% - 4.70%	33,350,000	2/1/2029	1,570,000	29,020,000
8/27/2009	1.75% - 5.40%	11,960,000	2/1/2024	1,845,000	10,235,000
9/15/2009	2.00% - 3.50%	4,060,000	2/1/2021	370,000	3,360,000
Total General Obligation Bonds				4,045,000	47,035,000
Bond Premium				15,853	208,179
Bond Discounts				(8,296)	(87,799)
Capital Leases Payable				146,096	1,474,802
Severance and Wellness Benefits Payable				60,000	5,387,228
Compensated Absences Payable				363,396	427,525
				<u><u>\$ 4,622,049</u></u>	<u><u>\$ 54,444,935</u></u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

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

Year Ending June 30	General Obligation Bonds Payable	
	Principal	Interest
2014	\$ 4,045,000	\$ 1,934,866
2015	3,640,000	1,793,394
2016	3,030,000	1,655,290
2017	3,145,000	1,537,518
2018	3,265,000	1,411,958
2019 - 2023	15,885,000	4,995,574
2024 - 2028	11,575,000	1,920,804
2029	2,450,000	57,575
	\$ 47,035,000	\$ 15,306,979

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 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 of 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 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

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.

In April 2009, the District entered into a lease with Riverbend Leasing for copiers. In January 2011, the District entered into another 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 May 2014, 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 \$2,276,319 and \$427,897, 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, 2013:

Year Ending June 30,		
2014	\$	227,122
2015		213,343
2016		209,414
2017		188,586
2018		107,860
2019 - 2023		532,020
2024 - 2028		486,451
Total Minimum Lease Payments		1,964,796
Less Amounts Representing Interest		
Present Value of Net Minimum Lease Payments		489,994
	\$	1,474,802

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

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, 2013, unpaid vacation totaling \$427,525 is recorded in the Statement of Net Position. Vacation benefits have been paid by the General and Special Revenue Funds.

D. Changes in Long-Term Debt

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

	June 30, 2012	Net Additions	Retirements	June 30, 2013
Bonds Payable	\$ 51,385,000	\$ -	\$ 4,350,000	\$ 47,035,000
Bond Premium	239,301	-	31,122	208,179
Bond Discounts	(96,095)	-	(8,296)	(87,799)
Capital Leases Payable	1,537,474	99,640	162,312	1,474,802
Severance and Wellness Benefits Payable	5,617,661	255,423	485,856	5,387,228
Compensated Absences Payable	481,275	569,213	622,963	427,525
	<u>\$ 59,164,616</u>	<u>\$ 924,276</u>	<u>\$ 5,643,957</u>	<u>\$ 54,444,935</u>

NOTE 5 OPERATING LEASES

The District has lease agreements to lease facilities. Rent expense under annual operating leases for the year ending June 30, 2013 was \$603,636. Some of these operating leases are funded through the lease levy.

Minimum rental commitments on leases in effect at June 30, 2013 are as follows:

Year Ending June 30,	
2014	\$ 509,936
2015	477,253
2016	319,629
2017	261,428
2018	222,805
2019	79,372
	<u>\$ 1,870,423</u>

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES

Fund Equity

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

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

A. Restricted for Staff Development

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

B. Restricted for Health and Safety

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

C. Restricted for 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 Safe Schools - Crime

Restricted for safe schools - crime represents accumulated resources available to be expended for crime prevention, drug abuse prevention, student and staff safety, and violence prevention measures.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

H. Restricted for Community Education Programs

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

I. Restricted for Early Childhood and Family Education Programs

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

J. Restricted for School Readiness

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

K. Restricted for Adult Basic Education

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

L. Restricted for Other Purposes

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

M. 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 PENSION PLANS (CONTINUED)

A. Teachers Retirement Association (TRA) (Continued)

1. Plan Description (Continued)

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.

The District is required to contribute the following percentages of annual covered payroll: 6.5% 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, 2013, 2012, and 2011 were \$2,329,449, \$2,101,647, and \$1,843,877, 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 will each be 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.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 PENSION PLANS (CONTINUED)

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

1. Plan Description (Continued)

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 GERS. 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 contribution to the pension plans equal to the amount required by State Statutes. GERS Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, and 7.25% for Coordinated Plan members. The District's contributions for the years ended June 30, 2013, 2012, and 2011 were \$871,113, \$856,632, and \$811,426, 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, 2013, 2012, and 2011 are \$541,207, \$467,826, and \$434,852, respectively. The related employee contributions were \$1,267,635, \$1,197,916, and \$1,221,991, for the years ended June 30, 2013, 2012, and 2011, respectively.

**MANKATO PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 2013, total contributions to the plan were \$351,018.

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	\$ 1,234,007
Interest on Net OPEB Obligation	(518,468)
Adjustment to Annual Required Contribution	627,769
Annual OPEB Cost (Expense)	<u>1,343,308</u>
Contributions Made	<u>(351,018)</u>
Decrease in Net OPEB Asset	992,290
Net OPEB Asset - Beginning of Year	<u>(8,641,135)</u>
Net OPEB Asset - End of Year	<u><u>\$ (7,648,845)</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 2013, and the two preceding years is:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2013	\$ 1,343,308	26.1%	\$ (7,648,845)
6/30/2012	1,261,876	25.9%	(8,641,135)
6/30/2011	1,249,442	83.4%	(9,576,551)

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 OTHER POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

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.

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, 2013 does not exceed 30 years.

NOTE 9 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds			
Food Service Fund	\$ 3,520,026	\$ 3,576,564	\$ 56,538
Community Service Fund	\$ 4,357,370	\$ 4,621,270	\$ 263,900

These additional expenditures were paid for with available fund balance.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 STEWARDSHIP AND ACCOUNTABILITY (CONTINUED)

B. Interfund Receivables and Payables

The District had the following interfund receivables and payables at June 30, 2013:

	Due from Other Funds	Due to Other Funds
General Fund	\$ -	\$ 102,202
Internal Service Fund	102,202	-
	\$ 102,202	\$ 102,202

The purpose of the interfund balance is to account for dental insurance premiums owed from the General Fund to the Internal Service Fund at year end.

C. Interfund Transfers

Individual fund transfers for the year ended June 30, 2013 are as follows:

Fund	Transfer In	Transfer Out
Debt Service Fund	\$ 8,296	\$ -
Capital Projects Fund	-	(8,296)
	\$ 8,296	\$ (8,296)

The purpose of the transfer from the Capital Projects Fund to the Debt Service Fund was to move excess bond referendum funds in the Capital Projects Fund so they could be used for debt service payments.

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 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 \$563,007 for the year ended June 30, 2013.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 SELF-INSURED DENTAL PLAN (CONTINUED)

The liability for unpaid claims included in the Internal Service Fund as claims payable for 2013 and the preceding year were:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Beginning of Year Liability - July 1	\$ 222,530	\$ 199,524
Incurred Claims	510,589	443,057
Claims Payments	<u>(453,881)</u>	<u>(420,051)</u>
End of Year Liability - June 30	<u>\$ 279,238</u>	<u>\$ 222,530</u>

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, 2013 the District had entered in various construction contracts for the construction and betterment of school facilities. Total remaining commitments under these contracts were \$787,090.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2013**

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
YEAR ENDED JUNE 30, 2013**

Fiscal Year Ended	Annual Required Contribution	Employer Contribution	Percentage Contributed
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%

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SUPPLEMENTARY INFORMATION

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF CHANGES IN FUND EQUITIES
YEAR ENDED JUNE 30, 2013**

	Fund Equities June 30, 2012	Revenues	Expenditures	Other Financing Sources (Uses)	Transfers	Total
GOVERNMENTAL FUNDS						
General Fund						
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 10,618	\$ 10,618
Restricted for Staff Development	179,425	974,596	958,051	-	-	195,970
Restricted for Health and Safety	(173,377)	396,317	396,914	-	-	(173,974)
Restricted for Deferred Maintenance	753,139	508,918	885,878	-	-	376,179
Restricted for Operating Capital	2,102,700	3,025,186	2,581,298	-	-	2,546,588
Restricted for Learning and Development	958,694	1,818,870	1,619,707	-	-	1,157,857
Restricted for Gifted and Talented	-	103,823	165,911	-	62,088	-
Restricted for Basic Skills	379,929	3,351,553	3,999,972	-	834,957	566,467
Restricted for Career and Tech. Programs	-	131,863	404,845	-	272,982	-
Restricted for Safe Schools - Crime	7,741	254,459	262,200	-	-	-
Assigned for Severance	690,000	-	-	-	-	690,000
Unassigned	9,327,563	64,854,080	63,687,310	106,698	(1,180,645)	9,420,386
Total General Fund	14,225,814	75,419,665	74,962,086	106,698	-	14,790,091
Food Service Fund						
Nonspendable	48,399	-	4,999	-	-	43,400
Restricted for Other Purposes	1,075,926	3,709,130	3,571,565	-	-	1,213,491
Total Food Service Fund	1,124,325	3,709,130	3,576,564	-	-	1,256,891
Community Service Fund						
Restricted for Community Education	418,869	2,836,169	2,671,190	-	-	583,848
Restricted for E.C.F.E.	195,112	561,810	519,903	-	-	237,019
Restricted for School Readiness	40,354	135,923	138,737	-	-	37,540
Restricted for Adult Basic Education	192,823	1,046,973	1,045,613	-	-	194,183
Restricted for Other Purposes	-	245,827	245,827	-	-	-
Total Community Service Fund	847,158	4,826,702	4,621,270	-	-	1,052,590
Capital Projects Fund						
Restricted for Other Purposes	85,676	90	77,470	(8,296)	-	-
Total Capital Projects Fund	85,676	90	77,470	(8,296)	-	-
Debt Service Fund						
Restricted for Other Purposes	2,184,918	5,572,805	5,494,142	8,296	-	2,271,877
Total Debt Service Fund	2,184,918	5,572,805	5,494,142	8,296	-	2,271,877
OPEB Debt Service Fund						
Restricted for Other Purposes	143,476	1,033,207	985,114	-	-	191,569
Total OPEB Debt Service Fund	143,476	1,033,207	985,114	-	-	191,569
TOTAL GOVERNMENTAL FUNDS	18,611,367	90,561,599	89,716,646	106,698	-	19,563,018
FIDUCIARY FUNDS						
Trust Fund						
Restricted for Scholarships and Other Purposes	71,387	93,740	16,171	-	-	148,956
Total Trust Fund	71,387	93,740	16,171	-	-	148,956
OPEB Trust Fund						
Restricted for Payment of OPEB Benefits	13,171,299	1,039,198	856,270	-	-	13,354,227
Total OPEB Trust Fund	13,171,299	1,039,198	856,270	-	-	13,354,227
TOTAL FIDUCIARY FUNDS	13,242,686	1,132,938	872,441	-	-	13,503,183
PROPRIETARY FUNDS						
Internal Service Fund						
Unrestricted	59,875	513,893	563,007	-	-	10,761
Total Internal Service Fund	59,875	513,893	563,007	-	-	10,761
TOTAL PROPRIETARY FUNDS	59,875	513,893	563,007	-	-	10,761
GRAND TOTAL	\$ 31,913,928	\$ 92,208,430	\$ 91,152,094	\$ 106,698	\$ -	\$ 33,076,962

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

<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	\$ 169,213
Total Non-Cash Assistance			\$ 169,213
Cash Assistance:			
School Breakfast Program	a 10.553	1-077-000	274,215
National School Lunch Program	a 10.555	1-077-000	1,259,878
National School Lunch Program - Commodity Cash Rebate	a 10.555	1-077-000	115,379
Special Milk Program for Children	a 10.556	1-077-000	2,877
Summer Food Service Program for Children	a 10.559	1-077-000	164,577
Total Cash Assistance			<u>1,816,926</u>
Total U.S. Department of Agriculture			<u>1,986,139</u>
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Adult Basic Education State Grant Program	84.002	**	56,856
ABE EL - Civics Competitive Allocation	84.002A	**	40,000
Title I, Part A - Grants to Local Educational Agencies	84.010	**	1,119,845
Special Education Grants to States	b 84.027	**	1,339,790
Special Education Preschool Grants	b 84.173	**	42,717
Special Education Preschool Grants - Personnel Development	b 84.173	**	3,405
Special Education Grants for Infants and Families with Disabilities	c 84.181	**	44,408
Title III, Part A - English Language Acquisition Grants	84.365	**	38,428
Title II - Improving Teacher Quality State Grants	84.367	**	278,395
Total Passed Through Minnesota Department of Education			2,963,844
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	**	3,832
Career and Technical Education - Basic Grants to States	84.048	**	21,500
Total Passed Through South Central Service Cooperative			25,332
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			3,024,320
U.S. Department of Labor			
Pass-Through South Central College			
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA	17.275	**	41,401
Total Passed Through South Central College			41,401
Pass-Through Minnesota Department of Education			
Unemployment Insurance - ARRA	17.225		8,896
Incentive Grants - WIA Section 503	17.267	**	27,323
Total Passed Through Minnesota Department of Education			<u>36,219</u>
Total U.S. Department of Labor			<u>77,620</u>
U.S. Department of Commerce			
Pass-Through Minnesota Department of Employment and Economic Development			
Broadband Technology Opportunities Program - ARRA	11.557	**	11,076
Total U.S. Department of Commerce			<u>11,076</u>
Total Federal Financial Assistance Expended			<u>\$ 5,099,155</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, 2013**

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, 2013, 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 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 77's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 77's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 77's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

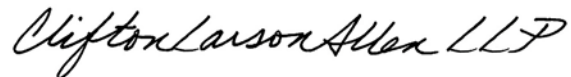
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
October 7, 2013



**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, 2013. 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-002 through 2013-004. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of Independent School District No. 77 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No.77's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 77's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-001 through 2013-004 to be material weaknesses.

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

Board of Education
Independent School District No. 77

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
October 7, 2013



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

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, 2013, and the related notes to the financial statements and have issued our report thereon dated October 7, 2013.

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

CliftonLarsonAllen LLP

Austin, Minnesota
October 7, 2013

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Part I: Summary of Independent Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District No. 77.
2. No deficiencies in internal control were 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. Four material weaknesses in internal control over compliance were disclosed during the audit of the major federal award programs. These are listed as findings 2013-001 through 2013-004.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 77 expresses an unqualified 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
Special Education Preschool Grants – Personnel Development	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, 2013**

Part II: Findings Related to the General Purpose Financial Statements

None noted.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Part III: Federal Awards Findings and Questioned Costs

**FINDING: 2013-001 TITLE I, PART A – CFDA# 84.010
ALL GRANT YEARS
U.S. DEPARTMENT OF EDUCATION
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
INTERNAL CONTROL OVER CASH MANAGEMENT**

Condition: During our testing of cash management, we could not see documentation that an independent member of management reviewed or approved the reimbursement request submitted during the fiscal year.

Criteria: Standard internal control practices indicate that all data submissions be approved by an independent member of management.

Questioned Costs: None

Context: One reimbursement request was submitted during the fiscal year, and the documentation of the approval for the reimbursement request could not be located.

Effect: The potential exists that inaccurate data could be submitted for reimbursement to the Minnesota Department of Education.

Cause: The District provided the documentation containing the approval to an independent monitor. The documentation could not be located after the monitoring visit.

Recommendation: The District should maintain documentation supporting all internal control procedures performed related to internal controls over compliance.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

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, 2013.

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, 2013**

**FINDING: 2013-002 SPECIAL EDUCATION CLUSTER – CFDA# 84.027 & 84.173
ALL GRANT YEARS
U.S. DEPARTMENT OF EDUCATION
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
TIME AND EFFORT DISTRIBUTION RECORDS**

Condition: Special Education employees properly completed time and effort reporting, however, time and effort documentation was not reconciled properly to actual pay distribution in the payroll software for one employee.

Criteria: OMB Circular A-87, Attachment B, paragraph 13d requires that employees that are not 100% Federal need to prepare a "personnel activity report" or timesheet on at least a monthly basis. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports must be made. Costs charged to the Federal awards should reflect actual activity.

Questioned Costs: \$1,316

Context: Wages and benefits for two of thirty-two federal Special Education payroll transactions tested did not reflect actual activity reported on the time and effort documentation completed by the employee.

Effect: The District reduced its federal grant expenditures and requested reimbursements by the amount identified as known questioned costs above, but the potential exists that additional material noncompliance could occur and not be prevented, or detected and corrected, by the District's internal controls.

Cause: The District's controls are not adequate to ensure that all grant expenditures are allowable.

Recommendation: Personnel activity reports or time certifications should continue to be completed by all employees paid with funding from a federal program. Pay distribution for the year should agree with the actual activity reported on the personnel activity report, or the cumulative personnel activity reports should be reconciled at least quarterly and annually to Federal program employee's pay distribution.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:
There is no disagreement with the audit finding.

Actions Planned in Response to Finding:
The District will immediately implement the recommendation.

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

CORRECTIVE ACTION PLAN (CAP) (CONTINUED):

Officials Responsible for Ensuring CAP:

Jerry Kolander, Director of Business Affairs, and Stephanie White, Special Education Director, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is September 30, 2013.

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, 2013**

**FINDING: 2013-003 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
INELIGIBLE REIMBURSEMENT**

- Condition:** One of forty free and reduced students selected for testing were ineligible. The student was entered as qualified to receive free meals and was directly certified in the District's eligibility determination software, however, the student was not listed on the Direct Certification report, nor did the student's income application qualify for free meal status. The student should have paid full price for meals during the 2012-2013 school year.
- Criteria:** The Department of Agriculture, Food and Nutrition Services provides income eligibility guidelines for Child Nutrition Programs. The District must classify eligibility of students for free and reduced meals based on these guidelines.
- Questioned Costs:** \$612
- Context:** One of forty students eligible for free and reduced meals tested was misclassified to receive free meals for the 2012-13 school year.
- Effect:** The District received improper reimbursement rates for meals served to ineligible students.
- Cause:** Not known.
- Recommendation:** District personnel entering eligibility determinations data into the food service software must take care to enter accurate information to result in accurate eligibility determinations.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is September 30, 2013.

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, 2013**

**FINDING: 2013-004 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 were noted in one of four months tested.

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: None

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

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 will immediately implement the recommendation.

Officials Responsible for Ensuring CAP:

Ron Schirmers, Director of Food Service, and Jerry Kolander, Director of Business Affairs, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is September 30, 2013.

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, 2013**

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, 2013**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2012-5	Special Education and Title I Clusters– Time and Effort Distribution Records	Partially Corrected	See current year finding 2013-002.
2012-6	Title I Cluster – Non-Payroll Disbursement Approval	Corrected	
2012-7	Special Education and Title I Clusters – Internal Control over Students Served	Corrected	
2012-8	Child Nutrition Cluster – Control and Compliance over Monthly Reporting	Not Corrected	See current year finding 2013-004.

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**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2013**

01 GENERAL FUND	Audit	UFARS	Difference	06 BUILDING CONSTRUCTION	Audit	UFARS	Difference
Total Revenues	\$ 75,426,723	\$ 75,426,716	\$ 7	Total Revenues	\$ 90	\$ 90	\$ -
Total Expenditures	\$ 74,962,086	\$ 74,962,081	\$ 5	Total Expenditures	\$ 77,470	\$ 77,470	\$ -
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	\$ 10,618	\$ 10,618	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	\$ 195,970	\$ 195,970	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 376,179	\$ 376,179	\$ -	409 Alternative Fac. Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (173,974)	\$ (173,974)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
408 Cooperative Rev.	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
414 Operating Debt	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -				
423 Certain Teacher Programs	\$ -	\$ -	\$ -	07 DEBT SERVICE			
424 Operating Capital	\$ 2,546,588	\$ 2,546,588	\$ -	Total Revenues	\$ 5,572,805	\$ 5,572,805	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	Total Expenditures	\$ 5,494,142	\$ 5,494,142	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	<i>Restricted/Reserved:</i>			
428 Learning & Development	\$ 1,157,857	\$ 1,157,857	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	464 Other Purposes	\$ 2,271,877	\$ 2,271,876	\$ 1
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
438 Gifted & Talented	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
441 Basic Skills	\$ 566,467	\$ 566,467	\$ -				
445 Career and Tech, Programs	\$ -	\$ -	\$ -	08 TRUST			
446 First Grade Preparedness	\$ -	\$ -	\$ -	Total Revenues	\$ 93,740	\$ 93,740	\$ -
449 Safe Schools Levy	\$ -	\$ -	\$ -	Total Expenditures	\$ 16,171	\$ 16,171	\$ -
450 Pre-Kindergarten	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
451 QZAB Payments	\$ -	\$ -	\$ -	422 Unassigned	\$ 148,956	\$ 148,956	\$ -
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>Unassigned:</i>				Total Revenues	\$ 513,893	\$ 513,894	\$ (1)
462 Assigned	\$ 690,000	\$ 690,000	\$ -	Total Expenditures	\$ 563,007	\$ 563,007	\$ -
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned	\$ 9,420,386	\$ 9,420,384	\$ 2	422 Unassigned	\$ 10,761	\$ 10,761	\$ -
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST			
Total Revenues	\$ 3,709,130	\$ 3,709,131	\$ (1)	Total Revenues	\$ -	\$ -	\$ -
Total Expenditures	\$ 3,576,564	\$ 3,576,563	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable	\$ 43,400	\$ 43,400	\$ -	422 Unassigned	\$ -	\$ -	\$ -
<i>Restricted:</i>							
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -	45 OPEB IRREVOCABLE TRUST			
464 Other Purposes	\$ 1,213,491	\$ 1,213,492	\$ (1)	Total Revenues	\$ 1,039,198	\$ 1,039,197	\$ 1
<i>Unassigned:</i>				Total Expenditures	\$ 856,270	\$ 856,270	\$ -
463 Unassigned	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
				422 Unassigned	\$ 13,354,227	\$ 13,354,226	\$ 1
04 COMMUNITY SERVICE							
Total Revenues	\$ 4,826,702	\$ 4,826,705	\$ (3)	47 OPEB DEBT SERVICE			
Total Expenditures	\$ 4,621,270	\$ 4,621,271	\$ (1)	Total Revenues	\$ 1,033,207	\$ 1,033,207	\$ -
<i>Nonspendable:</i>				Total Expenditures	\$ 985,114	\$ 985,114	\$ -
460 Nonspendable	\$ -	\$ -	\$ -	<i>Restricted:</i>			
<i>Restricted:</i>				464 Other Purposes	\$ 191,569	\$ 191,569	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
431 Community Education	\$ 583,848	\$ 583,848	\$ -	463 Unassigned	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ 237,019	\$ 237,019	\$ -				
444 School Readiness	\$ 37,540	\$ 37,540	\$ -				
447 Adult Basic Education	\$ 194,183	\$ 194,183	\$ -				
452 OPEB Liability Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ -	\$ -	\$ -				
<i>Unassigned:</i>							
463 Unassigned	\$ -	\$ -	\$ -				

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STUDENT ACTIVITY FUNDS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial 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, 2013, 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 2013, 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 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, 2013, 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 7, 2013

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
JUNE 30, 2013**

	Balance 6/30/2012	Receipts	Disbursements	Balance 6/30/2013
WEST HIGH				
Academic Athletic	\$ 389	\$ 842	\$ 880	\$ 351
Academic Decathlon	101	-	-	101
Band	9,493	83,045	11,158	81,380
Boys Cross Country	41	677	461	257
Boys Soccer	1,521	1,207	-	2,728
Choir	10,715	12,180	4,965	17,930
Distributive Education Club of America	16,686	15,537	14,765	17,458
Drama Fund	22,530	8,173	8,849	21,854
Fashions NY	1,268	-	-	1,268
Football Fund	8,350	12,710	18,541	2,519
German Language	1,604	8,785	1,769	8,620
Girls Athletics	2,027	-	-	2,027
Girls Gymnastics	90	-	30	60
Girls Soccer	2,079	1,457	1,068	2,468
Girls Swimming and Dive	175	814	279	710
History Club	15	3,246	3,216	45
Hockey Clinic	8,300	8,397	6,041	10,656
Interest, Student Investment	-	747	747	-
Key Club	735	1,050	726	1,059
Language Club	466	-	-	466
National Honor Society	834	430	896	368
Orchesis	1,373	3,502	2,292	2,583
Orchestra	3,716	26,197	1,069	28,844
OTAK Projects	6,067	10,986	12,990	4,063
Photo/Art Field Trips	707	-	-	707
Prom Fund	4,296	8,136	6,703	5,729
SADD	1,575	-	-	1,575
Senior Class	17	672	664	25
Senior Science	1,490	6,935	6,708	1,717
Student Council	2,993	3,137	3,546	2,584
Summer Athletic Camp - Boys	1,669	315	1,984	-
Summer Athletic Camp - Girls	1,602	7,535	5,974	3,163
Valley Fair Fund	393	1,903	1,816	480
Volleyball	1,870	5,945	5,562	2,253
Washington DC Trip	1	-	-	1
West Connection	18	-	-	18
Wrestling	78	-	-	78
Yell Club	346	-	292	54
TOTAL WEST HIGH	<u>115,630</u>	<u>234,560</u>	<u>123,991</u>	<u>226,199</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
JUNE 30, 2013**

	Balance 6/30/2012	Receipts	Disbursements	Balance 6/30/2013
EAST HIGH				
Arboretum Project	\$ 4,427	\$ -	\$ -	\$ 4,427
Art Club	2,290	2,445	2,475	2,260
Astronomy Club	5,855	2,987	7,779	1,063
Band	4,026	4,722	2,873	5,875
Baseball Fund	3,396	13,879	8,364	8,911
Black 7 Team	2,529	1,187	1,638	2,078
Black 8 Team	2,501	1,439	2,457	1,483
Boys Basketball	3,824	8,440	6,040	6,224
Boys Cross Country	3	881	437	447
Boys Golf	119	1,008	118	1,009
Boys Hockey Fund	286	-	69	217
Boys Soccer	1,057	5,695	6,091	661
Boys Tennis	311	-	-	311
Boys and Girls Swim Fund	1,056	12,231	11,256	2,031
Choir	9,014	25,471	15,870	18,615
Climbing Wall	291	-	-	291
Dance Company	130	603	733	-
DECA Conference	98	-	-	98
Distributive Education Club of America	440	3,291	3,619	112
Drama Fund	4,978	13,309	13,504	4,783
Environthon	12	-	-	12
Fashion Travel	489	-	-	489
Football	6,233	6,063	8,675	3,621
Future Homemakers of America	49	-	35	14
Girls Basketball	219	1,161	985	395
Girls Cross Country	457	294	333	418
Girls Golf	543	300	100	743
Girls Hockey	260	-	201	59
Girls Soccer	1,741	3,732	3,361	2,112
Girls Softball	3,686	9,977	8,253	5,410
Girls Tennis	640	-	624	16
Gold 7 Team	2,705	1,437	2,037	2,105
Gold 8 Team	2,097	1,441	1,518	2,020
Gymnastics	792	1,880	2,399	273
Hall of Fame	537	1,338	1,668	207
Interest, Student Investment	-	994	994	-
Junior High Activity	4,150	2,108	1,470	4,788
Junior High Author Day	880	-	34	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
JUNE 30, 2013**

	Balance 6/30/2012	Receipts	Disbursements	Balance 6/30/2013
EAST HIGH (CONTINUED)				
Junior High Choir	\$ 730	3,369	2,680	\$ 1,419
Junior High Project Right Start	1,796	985	479	2,302
Junior High Science Club	1,961	-	-	1,961
Junior High Student Council	2,207	1,437	549	3,095
Junior High Yearbook	1,482	2,972	241	4,213
"M" Club	5,203	9,429	5,864	8,768
Math League	375	-	-	375
Media	81	-	-	81
National Honor Society	922	560	667	815
Orchestra	1,587	5,067	4,716	1,938
Outdoor Education	392	268	236	424
Photo Club	1,605	-	-	1,605
Prom Fund	354	11,901	10,532	1,723
Reading Rewards	39	-	-	39
SADD	988	-	-	988
Science Club	67	-	-	67
Senior Class	-	381	-	381
Social Studies	156	-	-	156
Speech/Debate	1,369	4,285	3,928	1,726
SPIRIT	8,053	8,261	7,743	8,571
Student Council	571	6,517	6,594	494
Table Tennis	246	-	-	246
Track and Field	5,460	471	5,244	687
Volleyball	1,354	7,350	6,480	2,224
World Language Club	16	650	-	666
Wrestling Fund	2,127	6,797	5,205	3,719
XYZ Club	70	-	-	70
Youth Services	159	-	-	159
TOTAL EAST HIGH	<u>111,491</u>	<u>199,013</u>	<u>177,168</u>	<u>133,336</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
JUNE 30, 2013**

	Balance 6/30/2012	Receipts	Disbursements	Balance 6/30/2013
OTHER				
Adult Education Store	\$ 1,826	\$ 3,845	\$ 5,092	\$ 579
Bridges	98	-	-	98
Central High School Store	150	2,077	1,138	1,089
Dakota Meadows Student Recognition	3,837	-	-	3,837
Dakota Meadows Diversity Program	202	-	-	202
Dakota Meadows Author Day	651	-	-	651
Dakota Meadows Band	71	647	625	93
Dakota Meadows Choir Fund	600	-	-	600
Dakota Meadows Courage Retreat	17	-	-	17
Dakota Meadows Drama Club	405	-	-	405
Dakota Meadows Kasota Trail	475	1,305	1,612	168
Dakota Meadows Mankato Trail	1,889	1,296	1,153	2,032
Dakota Meadows Minneopa Trail	1,349	2,920	3,226	1,043
Dakota Meadows Orchestra	10	-	-	10
Dakota Meadows Sakatah Trail	538	2,725	2,566	697
Dakota Meadows Seventh Grade Transition	1,037	695	153	1,579
Dakota Meadows Student Council	2,478	2,549	3,075	1,952
Dakota Meadows Student Funds	7,276	371	155	7,492
Dakota Meadows Yearbook	1,420	5,811	5,421	1,810
Day Treatment	747	1,339	1,586	500
Debate	1,815	3,550	2,274	3,091
District Science Boards	63	778	699	142
Eagle Lake Elementary	2,464	2,787	-	5,251
Elementary Child	1,376	-	62	1,314
Franklin Student Council	1,226	1,160	333	2,053
Garfield Student Council	1,862	6,239	6,488	1,613
Guthrie District Transportation	5,553	10,420	15,414	559
Hard of Hearing	2,537	2,790	2,887	2,440
Hoover Student Council	716	1,000	1,273	443
HOSA	939	11,237	9,392	2,784
Jefferson Elementary	150	1,022	1,084	88
Kennedy Student Council	494	-	494	-
Monroe Student Council	295	-	-	295
Roosevelt Student Council	2,655	2,540	4,597	598
State Capital Trips	2,107	6,312	5,310	3,109
Washington PE	434	-	-	434
Washington Student Council	383	545	463	465
TOTAL OTHER	<u>50,145</u>	<u>75,960</u>	<u>76,572</u>	<u>49,533</u>
GRAND TOTAL	<u>\$ 277,266</u>	<u>\$ 509,533</u>	<u>\$ 377,731</u>	<u>\$ 409,068</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, 2013**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the Student Activity Fund are maintained, and the accompanying financial statements have been prepared, on the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Student Activity bank deposits are covered by deposit insurance or were properly collateralized.

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

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

Report on Compliance

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 77 as of and for the year ended June 30, 2013, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated October 7, 2013. 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 2013-005. 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

CliftonLarsonAllen LLP

Austin, Minnesota

October 7, 2013

**MANKATO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 77
SCHEDULE OF FINDINGS AND RESPONSES –
STUDENT ACTIVITY FUNDS
JUNE 30, 2013**

Finding: 2013-005 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. Three of forty 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, 2013.

Plan to Monitor Completion of CAP:

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