

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1
Minneapolis, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

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**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2014**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Alberto Monserrate	Chair	2015
Jenny Arneson	Vice Chair	2015
Richard Mammen	Clerk	2015
Rebecca Gagnon	Treasurer	2015
Carla Bates	Director	2017
Tracine Asberry	Director	2017
Kim Ellison	Director	2017
Josh Reimnitz	Director	2017
Mohamud Noor	Director	2015
<u>Administration</u>		
Dr. Bernadeia Johnson	Superintendent	
Michael Goar	Chief Executive Officer	
Robert Doty	Chief Operating Officer	
Arthur Alexander III	Deputy Chief Finance Officer	
Tammy Fredrickson	Director of Budgets	
Robin Peabody	Director of Finance	
District Offices:	Special School District No. 1 Minneapolis Public Schools 1250 West Broadway Avenue Minneapolis, MN 55411 (612) 668-0000	



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INDEPENDENT AUDITOR'S REPORT

To the School Board
Minneapolis Public Schools
Special District No. 1
Minneapolis, 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 Minneapolis Public Schools, Special District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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 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 Minneapolis Public Schools, Special District No. 1, Minneapolis, Minnesota, as of June 30, 2014 and the respective changes in financial position thereof, and the budgetary comparison for the General Fund, the Food Service Special Revenue Fund and the Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 65

As discussed in Note 14 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits and the Schedule of Employer Contributions – Other Post Employment Benefits on page 68, 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 District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements.



The accompanying supplementary information identified in the Table of Contents is the responsibility of management and was derived from and relates 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 accompanying supplementary information is fairly stated, in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2013, from which such partial information was derived.

Other auditors previously audited the District's 2013 financial statements and their report, dated December 19, 2013, expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014, on our consideration of the District's internal control over financial reporting and 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 results of that testing, and not to provide an opinion on the 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 the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
December 17, 2014

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

This section of the District's annual financial report presents a discussion and analysis of the District's financial performance during fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements that immediately follow this section.

The MD&A is an element of required supplementary information specified in the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, issued in June 1999. Certain comparative information between the current year (2013-2014) and the prior year (2012-2013) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- Total combined fund balance of all the District's governmental funds decreased \$ 10.1 million, or 5.7% from the prior year. This net decrease was due primarily to expenditures exceeding revenues for the year by \$ 135 million, offset by other financing activities.
- Total governmental fund revenues were \$ 653.4 million, up \$ 18.7 million or 3.0% increase over the prior year. While the most significant increase of \$ 42.8 million or 11.5% over last year came from State sources. Revenue from property taxes decreased approximately \$ 20.2 million due to shift to state aids while Federal sources also decreased by \$ 5.7 million. Other revenues, such as donations, fees and investment earnings increased slightly by \$ 1.2 million.
- Total governmental fund expenditures were \$ 788 million, up \$ 82 million, or 11.6% from the prior year. Capital outlay decreased by 14.7% or \$14.7 million. Expenditures also decreased in Vocational Instruction (\$ 0.3 million or 7.5 %), Instruction Support (\$ 2.5 million or 6.3%) and Pupil Support (\$ 1.4 million or 2.7%). Expenditures increased for Administration (\$ 0.7 million or 5.1%), District Support Services (\$ 2.0 million or 9.6%), Elementary and Secondary Instruction (\$ 1.5 million or .6%), Special Education (\$ 4.2 million or 3.9%), Sites and Buildings (\$ 4.5 million or 8.1%), Community Education (\$ 0.3 million or 7.5%) and Food Service (\$ 0.3 million or 1.6%) compared to last year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts: Independent Auditor's Report, required supplementary information, including the MD&A, the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-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 government-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-term and long-term financial information* about the *District's self-insured risk management activities*.
- *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.

**MINNEAPOLIS PUBLIC SCHOOLS
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements the District's activities are shown in one category:

- *Governmental Activities* – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds* – focusing on its most significant or “major” funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District may establish other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS

The District has three kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.
- *Proprietary Fund - Internal Service Fund* – Used to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund for self-insurance of worker's compensation, property and liability, as well as accumulating and recording the liability for accrued compensated absences (severance and vacation) and health insurance benefits for eligible employees upon retirement.
- *Fiduciary Fund* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as assets held in trust for postemployment benefits. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position were \$ 266.7 million on June 30, 2014. This was a change of 4.7% from the prior year (see Table A-1).

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

	Primary Government		Percentage Change
	Governmental Activities		
	2014	2013	
Current and Other Assets	\$ 437,491,100	\$ 430,789,286	1.56%
Capital Assets	496,354,134	491,688,969	0.95%
Total Assets	<u>933,845,234</u>	<u>922,478,255</u>	1.23%
Current Liabilities	130,819,527	175,086,684	-25.28%
Long-Term Liabilities	393,238,026	376,048,602	4.57%
Total Liabilities	<u>524,057,553</u>	<u>551,135,286</u>	-4.91%
Property Taxes Levied for Subsequent Year's Expenditures	143,129,227	116,705,586	22.64%
Net Position:			
Net Investment in Capital Assets	153,702,908	101,257,946	-51.79%
Restricted	35,800,506	48,399,483	-26.03%
Unrestricted	<u>77,155,040</u>	<u>104,979,954</u>	26.50%
Total Net Position	<u>\$ 266,658,454</u>	<u>\$ 254,637,383</u>	-4.72%

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts.

Total net position increased by approximately \$ 12.0 million, which reflects the current year operating results. As presented in the table above, net investment in capital assets experienced an increase of \$ 52.4 million over the prior year, while restricted net position decreased by \$ 12.6 million and unrestricted net position decreased by approximately \$ 27.8 million.

The District's increase in current and other assets is due to cash and investments as a result of the state aid shift. The District's decrease in total liabilities is due to several bond refundings.

At the close of fiscal year 2013-14, the District continued to hold three vacant school buildings at an estimated value of \$ 3.6 million.

**MINNEAPOLIS PUBLIC SCHOOLS
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Changes in Net Position

The District's *government-wide* total revenues were approximately \$ 654 million for the year ended June 30, 2014. Property taxes and unrestricted state aid accounted for 74.2% of total revenue for the year. An additional 1.6% came from other general revenues, and the remaining 24.2% from program revenues (Table A-2).

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

REVENUES	Primary Government		Percentage Change
	Governmental Activities for the		
	Fiscal Year Ended June 30,		
	2014	2013	
Program Revenues:			
Charges for Services	\$ 15,925,634	\$ 15,851,167	0.47%
Operating Grants and Contributions	131,683,565	133,191,221	-1.13%
Capital Grants and Contributions	11,000,000	11,000,000	0.00%
General Revenues:			
Property Taxes	146,981,135	166,405,786	-11.67%
State Formula Aid	338,222,498	298,038,183	13.48%
Other	10,262,123	9,182,666	11.76%
Total Revenues	654,074,955	633,669,023	3.22%
 EXPENSES			
District and School Administration	13,473,342	13,576,698	-0.76%
District Support Services	26,716,274	33,909,547	-21.21%
Regular Instruction	273,343,235	271,063,329	0.84%
Vocational Instruction	4,082,943	4,273,982	-4.47%
Special Education Instruction	114,726,330	110,670,325	3.66%
Instructional Support Services	40,284,398	41,485,771	-2.90%
Pupil Support Services	55,251,902	54,979,766	0.49%
Sites, Buildings, and Equipment	54,080,348	59,370,674	-8.91%
Fiscal and Other Fixed Cost Programs	566,697	539,461	5.05%
Food Service	19,148,563	20,180,224	-5.11%
Community Education and Services	24,683,707	24,474,808	0.85%
Interest and Fiscal Charges on Long-Term Debt	11,840,927	13,683,301	-13.46%
Total Expenses	638,198,666	648,207,886	-1.54%
 Change in Net Position	15,876,289	(14,538,863)	209.20%
 Net Position - Beginning, as Previously Stated	254,637,383	269,176,246	
Change in Accounting Principle	(3,855,218)	-	
Net Position - Beginning, as Restated	250,782,165	269,176,246	6.83%
 Net Position - Ending	\$ 266,658,454	\$ 254,637,383	-4.72%

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

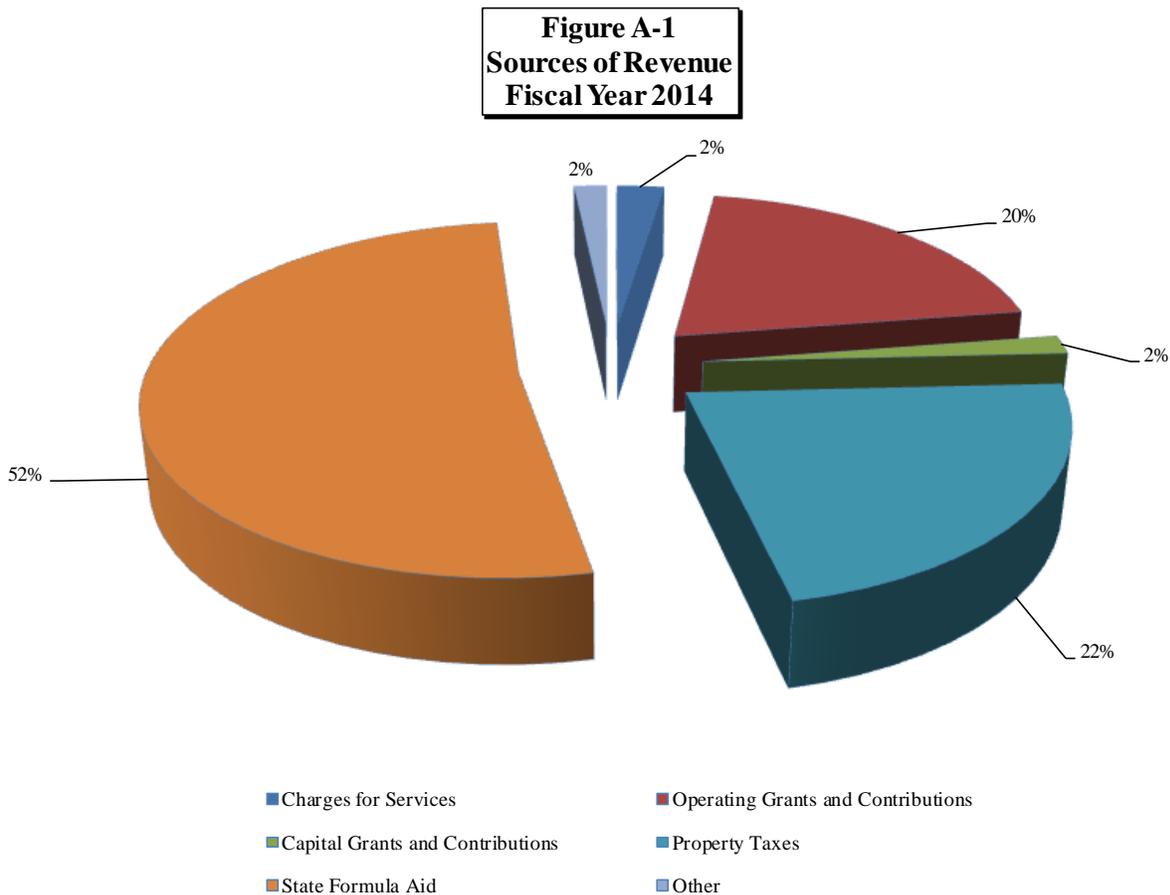
**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Total cost of all programs and services was \$ 638.2 million in fiscal 2014. District expenses were primarily related to educating and caring for students (77 %). The District's Community and Nutritional Service programs accounted for 7% of expenses while facility maintenance totaled 8% and fiscal/other fixed cost expenses totaled 2%. District and school administration accounted for 2% of total expenses during fiscal 2014(see Figure A-2 on next page).

The cost of all *governmental* activities this year was \$ 638.2 million.

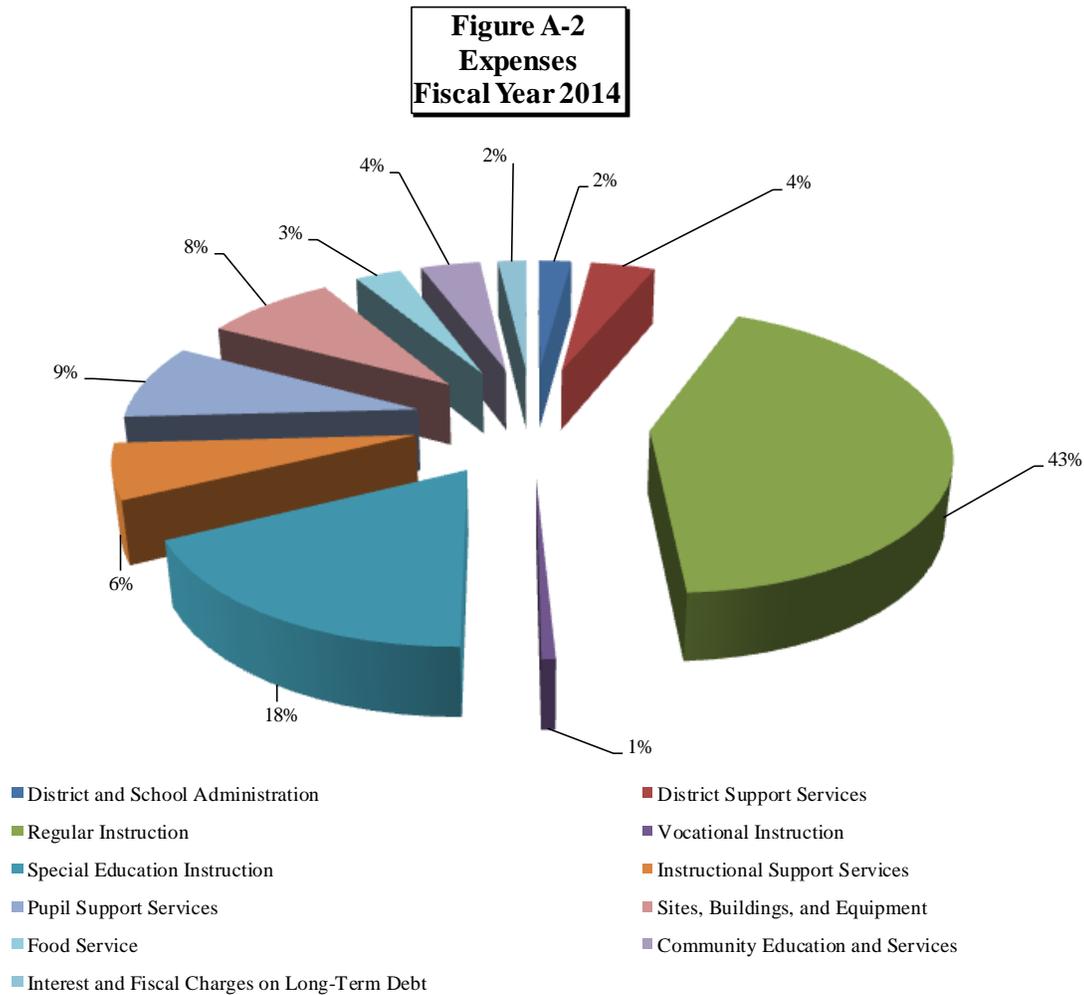
- Some of the cost was paid by the users of the District's programs (Table A-2 previous page, Charges for Services, \$ 15.9 million).
- The federal and state governments subsidized certain programs with grants and contributions (Table A-2, Operating and Capital Grants and Contributions, \$ 142.7 million).
- Most of the District's costs were paid for with local property taxes of \$ 147.0 million, unrestricted state aid of \$ 338.2 million, investment earnings of \$ 0.9 million, and other general revenues of \$ 9.3 million.



**MINNEAPOLIS PUBLIC SCHOOLS
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE



All governmental funds include not only funds received for the general operation of the District but also include resources from the entrepreneurial-type funds of Food Service and Community Education, 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 general operation resources. Figure A-2 shown on the previous page, therefore, the District does not include Special Revenue Funds (Food & Community Services) as a component of the general operation of the District, since the District cannot take funds from these restricted areas and use the funds to enhance instruction-related programs.

**MINNEAPOLIS PUBLIC SCHOOLS
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Table A-3
Primary Government Cost and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2014	2013		2014	2013	
Administration	\$ 13,473,342	\$ 13,576,698	-0.76%	\$ 13,473,342	\$ 13,547,711	-0.55%
District Support Services	26,716,274	33,909,547	-21.21%	25,613,071	33,535,081	-23.62%
Elementary and Secondary Regular Instruction	273,343,235	271,063,329	0.84%	238,233,547	228,759,584	4.14%
Vocational Education Instruction	4,082,943	4,273,982	-4.47%	3,498,210	3,707,150	-5.64%
Special Education Instruction	114,726,330	110,670,325	3.66%	47,810,370	47,528,752	0.59%
Instructional Support Services	40,284,398	41,485,771	-2.90%	38,124,246	40,514,655	-5.90%
Pupil Support Services	55,251,902	54,979,766	0.49%	52,665,071	52,316,106	0.67%
Sites and Buildings	54,080,348	59,370,674	-8.91%	52,101,806	56,720,058	-8.14%
Fiscal and Other Fixed Cost Programs	566,697	539,461	5.05%	566,697	539,461	5.05%
Food Service	19,148,563	20,180,224	-5.11%	1,161,059	3,006,792	-61.39%
Community Education and Services	24,683,707	24,474,808	0.85%	5,501,121	5,306,847	3.66%
Interest and Fiscal Charges on Long-Term Debt/Depreciation	11,840,927	13,683,301	-13.46%	840,927	2,683,301	-68.66%
Total	\$ 638,198,666	\$ 648,207,886	-1.54%	\$ 479,589,467	\$ 488,165,498	-1.76%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$ 168.6 million, or a \$ 10.0 million decrease over last year.

The District's governmental funds reported total expenditures of \$ 788 million and total revenues of \$ 653 million. Based on these results, fund balance would have decreased by \$ 135 million. The District also reported an increase in fund balance of \$ 125 million as a result of new bond issues and real estate sales during the year, including bond premiums of \$ 10 million. These other sources of financing along with the increase in expenditures over revenues resulted in an overall decrease to the *combined* fund balance of \$ 10.1 million from the prior year.

ENROLLMENT

Enrollment is a critical factor in determining revenue. The following chart shows that the number of students has decreased over the past seven years but shows a slight increase the last three years..

**Table A-4
Student Enrollment (Average Daily Membership)**

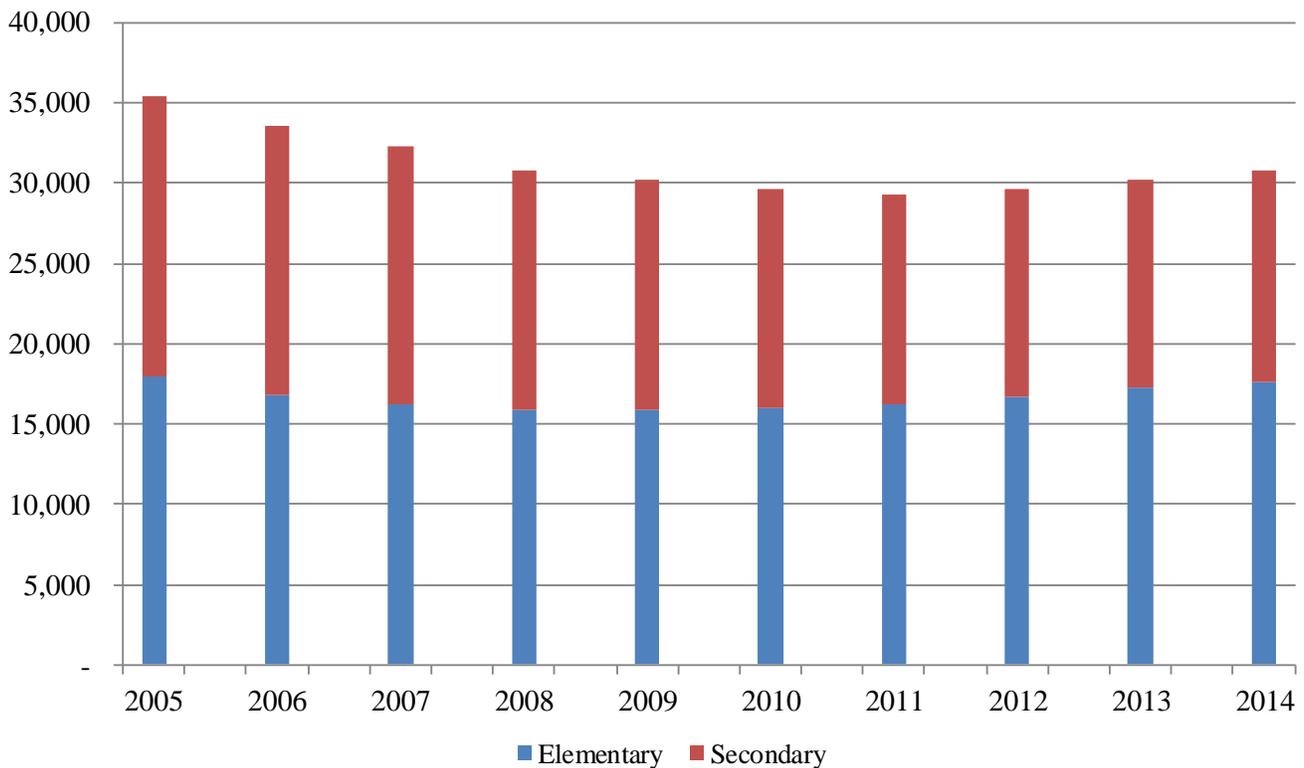
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Reg K, Pre-K & KH	3,679	3,720	3,470	3,409	3,469	3,708	3,656	3,728	3,789	3,582
Elementary	17,962	16,787	16,221	15,832	15,939	15,982	16,236	16,725	17,218	17,643
Secondary	17,475	16,754	16,013	14,896	14,256	13,671	13,087	12,878	12,985	13,086
Total Students for Aid	39,116	37,261	35,704	34,137	33,664	33,361	32,979	33,331	33,992	34,311
Percentage Change	-5.95%	-4.74%	-4.18%	-4.39%	-1.39%	-0.90%	-1.15%	1.07%	1.98%	0.94%

**MINNEAPOLIS PUBLIC SCHOOLS
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

ENROLLMENT

**Figure A-3
Student Enrollment
(Average Daily Membership)**



Over the last nine years, the District has experienced a decrease in average daily membership after peaking at 50,211 in 2001. Over the last two years, enrollment has increased and the District projects future minimal enrollment trend increases.

GENERAL FUND

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12. Special Education serves students from birth to 21. The General Fund also includes pupil transportation activities and capital outlay projects.

**MINNEAPOLIS PUBLIC SCHOOLS
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**MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2014**

GENERAL FUND

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	Year Ended June 30,		Increase (Decrease)	Percentage Change
	2014	2013		
Local Sources:				
Property Taxes	\$ 77,700,562	\$ 104,543,376	\$ (26,842,814)	-25.68%
Earnings on Investments	127,769	55,018	72,751	132.23%
Other	17,176,368	16,452,861	723,507	4.40%
State Sources	390,144,189	349,343,385	40,800,804	11.68%
Federal Sources	44,219,081	50,540,918	(6,321,837)	-12.51%
Total	<u>\$ 529,367,969</u>	<u>\$ 520,935,558</u>	<u>\$ 8,432,411</u>	1.62%

General Fund revenue increased by \$ 8.4 million or 1.6%, from the previous year.

Revenue increased slightly in fiscal year 2014 due to an increase in students which increased the District’s general education aid.

General Fund Revenue is received in three major categories. In summary, the three categories are:

1. State Education Finance Appropriations
 - A. General Education Aid – The largest share of the education finance appropriation, general education aid, is intended to provide the basic financial support for the education program and is enrollment driven.
 - B. Categorical Aids – Categorical revenue formulas are used to meet costs of that program (i.e., special education) or promote certain types of programs (i.e., career and technical aid).
2. State Paid Property Tax Levies Credits

The largest share of the levy is from voter-approved levies: the excess operating referendum, which is also enrollment driven. Property tax credits reduce the amount of property taxes paid. To make up for this reduction, the state pays the difference between what was levied in property taxes and what is actually received in property taxes to school districts and other taxing districts.
3. Federal Sources

The largest source of federal funding are those received under the “No Child Left Behind” reform initiative that was passed in January 2002. The law is actually the reauthorization of the 1965 Elementary and Secondary Education Act and is the United States Federal Government’s largest assistance program for schools.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

GENERAL FUND

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended June 30,		Increase (Decrease)	Percentage Change
	2014	2013		
Salaries	\$ 331,101,565	\$ 326,621,714	\$ 4,479,851	1.37%
Employee Benefits	108,018,916	109,112,572	(1,093,656)	-1.00%
Purchased Services	70,562,898	66,810,056	3,752,842	5.62%
Supplies and Materials	14,670,936	13,658,081	1,012,855	7.42%
Capital Expenditures	9,152,413	16,866,445	(7,714,032)	-45.74%
Other Expenditures	3,349,566	4,275,244	(925,678)	-21.65%
Total	<u>\$ 536,856,294</u>	<u>\$ 537,344,112</u>	<u>\$ (487,818)</u>	-0.09%

Total General Fund expenditures decreased \$ 0.5 million or 0.1% from the previous year.

General Fund salaries and benefits increased \$ 3.4 million combined for the year.

DEBT SERVICE FUND

The Debt Service Fund had excess expenditures over revenues of \$ 82 million. The District issued \$ 13.2 million in general obligation refunding bonds in December 2013 and \$ 41.1 million in certificates of participation.

OTHER MAJOR FUNDS

Expenditures exceeded revenues by about \$.8 million in the Food Service Fund and resulted in a decrease to fund balance bringing the total fund balance to \$ 1.2 million. In the Community Service Fund, revenues exceeded expenditures by about \$ 0.2 million, resulting in an ending fund balance of about \$ 3.3 million. Bond proceeds of \$ 54.3 million, along with excess expenditures over revenues of \$ 44.8 million provided the Capital Projects – Building Construction an increase in fund balance of \$ 13.2 million, increasing fund balance to \$ 52 million.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014, the District had invested approximately \$ 496 million (net of accumulated depreciation) in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7). More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year totaled approximately \$ 30.6 million. Included in the District's capital assets are three vacant school buildings. The value of these assets, net of depreciation, totals approximately \$ 3.6 million (see Note 4).

**Table A-7
Capital Assets (Net of Depreciation)**

	2014	2013	Percentage Change
Land and Construction in Progress	\$ 67,501,812	\$ 59,710,588	13.05%
Other Capital Assets	428,852,322	427,585,596	0.30%
Total	\$ 496,354,134	\$ 487,296,184	1.86%

GENERAL FUND BUDGETARY HIGHLIGHTS

Annual budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America for the General, Food Service, Community Service, Debt Service, and Capital Projects funds. All annual unencumbered appropriations lapse at fiscal year-end.

In accordance with state statute, the Board of Education adopts the various fund budgets by June 30 of the preceding fiscal year. Over the course of the fiscal year, the Board adopts amendments to the budgets for reinstating prior-year unspent school and department budgets, and increases in appropriations for significant unbudgeted costs.

Actual revenues in the General Fund were \$ 4.8 million lower than budgeted. The actual expenditures were \$ 2.7 million over budget. The decrease of \$ 2.9 million in fund balance was due to lower than anticipated revenue and higher operating costs.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

FACTORS BEARING ON THE DISTRICT'S FUTURE

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The basic general education formula allowance for Minnesota school districts increased slightly in fiscal year 2014 to \$ 5,302 per pupil. A weakened economy and growing demand on limited resources continue to present challenges in funding education for the Minnesota schools.

In fiscal year 2015, the District's Board of Directors approved a new strategic plan. The plan is called "Acceleration 2020" and it includes six goals and a new theory of action: Schools as the Unit of Change. The new strategic plan is bold, ambitious and seeks to address the disparity gap that exists in the MPS between students of color and their white counterparts. The plan also includes ambitious performance targets known as the "5-8-10 Plan". Specifically, this plan calls for the following:

- 5 percent annual increase in the number of students proficient in reading and math
- 8 percent annual increase of students meeting or exceeding standards in reading and math for our lowest performing students
- 10 percent annual increase in the four-year graduation rate

These targets have been set to reignite a sense of urgency in the system and ensure that everyone is operating with a growth mindset. As we achieve the performance targets set in the 5-8-10 plan, we expect to eliminate the achievement gap by the year 2020.

Related to Acceleration 2020 and specifically the new theory of action, the District is establishing five Community Partnership Schools. These schools applied and will be given the opportunity to use enhanced flexibilities in four areas, resources, staffing, curriculum and time. The community partnership schools will be given the enhanced autonomy along with specific accountability for expected student outcomes.

Finally, to further support the new theory of action, the District has embarked on a new methodology for allocation of its resources to schools. The new methodology is known as Student Based Allocation (SBA). SBA seeks to distribute District resources more equitably, transparently and efficiently. A goal of SBA is to provide resources to students based on their individual needs, regardless which Minneapolis Public School they attend. Individual student needs are weighted in five categories, Special Education, English Language Learners, Grade Configuration, Poverty and Performance.

REQUEST FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money it receives. Additional details can be requested by mail at the following address:

Minneapolis Public Schools
Finance Department
1250 West Broadway Avenue
Minneapolis, Minnesota 55411
Or visit our website at <http://www.mpls.k12.mn.us>

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BASIC FINANCIAL STATEMENTS

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	Governmental Activities	
	2014	2013
ASSETS		
Cash and Investments	\$ 271,111,232	\$ 210,728,860
Cash and Investments Held by Trustee	13,486,443	39,480,506
Receivables:		
Property Taxes	87,911,127	88,324,139
Other Governments	57,714,785	86,821,688
Other	5,540,086	3,403,119
Prepaid Items	141,540	200,131
Inventories	1,585,887	1,830,843
Net Other Post Employment Benefit Asset	-	537,567
Bond Issuance Cost, Net	-	3,855,218
Capital Assets:		
Land and Construction in Progress	67,501,812	59,710,588
Other Capital Asset, Net of Depreciation	428,852,322	427,585,596
	<u>\$ 933,845,234</u>	<u>\$ 922,478,255</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Salaries and Compensated Absences Payable	\$ 47,382,173	\$ 46,718,665
Accounts and Contracts Payable	24,663,139	33,390,199
Accrued Interest	6,114,653	5,830,019
Due to Other Governmental Units	835,297	196,060
Unearned Revenue	1,828,775	754,469
Long-Term Liabilities:		
Portion Due Within One Year	49,995,490	88,197,272
Portion Due in More Than One Year	393,238,026	376,048,602
Total Liabilities	<u>524,057,553</u>	<u>551,135,286</u>
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year's Expenditures	<u>143,129,227</u>	<u>116,705,586</u>
Net Position		
Net Investment in Capital Assets	153,702,908	101,257,946
Restricted for:		
General Fund State-Mandated Reserves	2,255,536	4,153,637
Food Service	1,238,920	2,001,133
Community Service	3,358,351	3,110,990
Debt Service	19,461,268	388,833
Capital Projects - Building Construction	9,486,431	38,744,890
Unrestricted	77,155,040	104,979,954
Total Net Position	<u>266,658,454</u>	<u>254,637,383</u>
	<u>\$ 933,845,234</u>	<u>\$ 922,478,255</u>

MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)

Functions/Programs	2014				Net (Expense) Revenues and Changes in Net Position	2013 Net (Expense) Revenues and Changes in Net Position		
	Expenses	Program Revenues		Capital Grants and Contributions			Total Governmental Activities	Total Governmental Activities
		Charges for Services	Operating Grants and Contributions					
Governmental Activities								
Administration	\$ 13,473,342	\$ -	\$ -	\$ -	\$ (13,473,342)	\$ (13,547,711)		
District Support Services	26,716,274	27,318	1,075,885	-	(25,613,071)	(33,535,081)		
Elementary and Secondary Regular Instruction	273,343,235	401,231	34,708,457	-	(238,233,547)	(228,759,584)		
Vocational Education Instruction	4,082,943	-	584,733	-	(3,498,210)	(3,707,150)		
Special Education Instruction	114,726,330	4,234,194	62,681,766	-	(47,810,370)	(47,528,752)		
Instructional Support Services	40,284,398	208,490	1,951,662	-	(38,124,246)	(40,514,655)		
Pupil Support Services	55,251,902	-	2,586,831	-	(52,665,071)	(52,316,106)		
Sites and Buildings	54,080,348	1,959,185	19,357	-	(52,101,806)	(56,720,058)		
Fiscal and Other Fixed Cost Programs	566,697	-	-	-	(566,697)	(539,461)		
Food Service	19,148,563	1,810,195	16,177,309	-	(1,161,059)	(3,006,792)		
Community Education and Services	24,683,707	7,285,021	11,897,565	-	(5,501,121)	(5,306,847)		
Interest and Fiscal Charges on Long-Term Debt	11,840,927	-	-	11,000,000	(840,927)	(2,683,301)		
Total Governmental Activities	<u>\$ 638,198,666</u>	<u>\$ 15,925,634</u>	<u>\$ 131,683,565</u>	<u>\$ 11,000,000</u>	(479,589,467)	(488,165,498)		
General Revenues								
Taxes:								
Property Taxes, Levied for General Purposes					77,578,097	103,878,013		
Property Taxes, Levied for Community Service					2,406,822	4,759,244		
Property Taxes, Levied for Debt Service					62,025,199	56,406,896		
Property Taxes, Levied for Capital Projects					4,971,017	1,361,633		
State Aid Not Restricted to Specific Purposes					338,222,498	298,038,183		
Earnings on Investments					912,544	102,088		
Gain on Sale of Capital Assets					657,480	64,027		
Miscellaneous					8,692,099	9,016,551		
Total General Revenues					<u>495,465,756</u>	<u>473,626,635</u>		
Change in Net Position					15,876,289	(14,538,863)		
Net Position - Beginning, as Previously Stated					254,637,383	269,176,246		
Change in Accounting Principle (See Note 14)					(3,855,218)	-		
Net Position - Beginning, as Restated					<u>250,782,165</u>	<u>269,176,246</u>		
Net Position - Ending					<u>\$ 266,658,454</u>	<u>\$ 254,637,383</u>		

2 The Notes to the Financial Statements are an integral part of this statement.

MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)

	Major Funds					Total Governmental Funds	
	General	Food Service	Community Service	Capital Project-Building Construction	Debt Service	2014	2013
ASSETS							
Cash and Investments	\$ 119,700,798	\$ -	\$ 4,328,228	\$ 60,458,437	\$ 36,535,453	\$ 221,022,916	\$ 156,815,618
Cash and Investments Held by Trustee	-	-	-	687,854	12,798,589	13,486,443	39,480,506
Receivables:							
Current Property Taxes Receivable	57,675,159	-	2,481,196	-	25,696,716	85,853,071	86,066,186
Delinquent Property Taxes Receivable	1,279,128	-	55,852	-	723,076	2,058,056	2,257,953
Due from Other Minnesota School Districts	370,922	-	-	-	-	370,922	526,693
Due from Minnesota Department of Education	34,500,203	96,211	905,353	-	1,129,213	36,630,980	61,516,582
Due from Federal Government through Minnesota Department of Education	15,062,717	2,470,449	557,064	-	-	18,090,230	22,387,484
Due from Federal Government Received Directly	267,608	-	-	-	-	267,608	310,080
Due from Other Governmental Units	2,306,233	4,000	44,812	-	-	2,355,045	2,080,849
Other Receivables	5,238,648	-	274,746	26,692	-	5,540,086	3,403,118
Due from Other Funds	1,553,651	39,531	93,763	17,158	-	1,704,103	513,844
Prepaid Items	74,905	-	-	-	-	74,905	66,862
Inventory	821,613	764,274	-	-	-	1,585,887	1,830,843
Total Assets	<u>\$ 238,851,585</u>	<u>\$ 3,374,465</u>	<u>\$ 8,741,014</u>	<u>\$ 61,190,141</u>	<u>\$ 76,883,047</u>	<u>\$ 389,040,252</u>	<u>\$ 377,256,618</u>
LIABILITIES							
Salaries and Compensated Absences Payable	\$ 30,232,336	\$ -	\$ -	\$ -	\$ -	\$ 30,232,336	\$ 27,691,185
Payroll Deductions and Employer Contributions Payable	17,149,837	-	-	-	-	17,149,837	19,027,480
Accounts and Contracts Payable	13,930,822	206,815	163,664	9,192,003	-	23,493,304	31,446,804
Due to Other Governmental Units	835,297	-	-	-	-	835,297	196,060
Due to Other Funds	-	1,704,103	-	-	-	1,704,103	513,844
Interest Payable	-	-	-	41,707	-	41,707	41,704
Unearned Revenue	1,343,234	224,627	260,914	-	-	1,828,775	754,469
Total Liabilities	<u>63,491,526</u>	<u>2,135,545</u>	<u>424,578</u>	<u>9,233,710</u>	<u>-</u>	<u>75,285,359</u>	<u>79,671,546</u>
DEFERRED INFLOWS OF RESOURCES							
Property Taxes Levied for Subsequent Year's Expenditures	86,822,309	-	4,958,085	-	51,348,833	143,129,227	116,705,586
Unavailable Revenue - Delinquent Property Taxes	1,279,128	-	55,852	-	723,076	2,058,056	2,257,953
Total Deferred Inflows of Resources	<u>88,101,437</u>	<u>-</u>	<u>5,013,937</u>	<u>-</u>	<u>52,071,909</u>	<u>145,187,283</u>	<u>118,963,539</u>
FUND BALANCES							
Nonspendable:							
Prepaid Items	74,905	-	-	-	-	74,905	66,862
Inventory	821,613	764,274	-	-	-	1,585,887	1,830,839
Restricted for:							
Alternative Facility Program	-	-	-	32,835,469	-	32,835,469	2,070,311
Area Learning Center	1,194,107	-	-	-	-	1,194,107	2,865,828
Graduation Standards - Gifted and Talented	389,244	-	-	-	-	389,244	448,809
Health and Safety	596,702	-	-	-	-	596,702	763,517
Operating Capital	-	-	-	-	-	-	75,483
Community Education Programs	-	-	2,327,367	-	-	2,327,367	2,150,381
Early Childhood and Family Educations Programs	-	-	446,898	-	-	446,898	279,662
School Readiness	-	-	1,438	-	-	1,438	168,870
Adult Basic Education	-	-	504,789	-	-	504,789	426,089
Bond Refundings	-	-	-	-	-	-	27,175,607
QSCB/QZAB	-	-	-	-	11,507,867	11,507,867	8,704,073
Building Construction	-	-	-	19,120,962	-	19,120,962	36,674,579
Other Purposes	75,483	474,646	22,007	-	13,303,271	13,875,407	9,696,025
Assigned	39,192,676	-	-	-	-	39,192,676	35,221,882
Unassigned	44,913,892	-	-	-	-	44,913,892	50,002,716
Total Fund Balances	<u>87,258,622</u>	<u>1,238,920</u>	<u>3,302,499</u>	<u>51,956,431</u>	<u>24,811,138</u>	<u>168,567,610</u>	<u>178,621,533</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 238,851,585</u>	<u>\$ 3,374,465</u>	<u>\$ 8,741,014</u>	<u>\$ 61,190,141</u>	<u>\$ 76,883,047</u>	<u>\$ 389,040,252</u>	<u>\$ 377,256,618</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	2014	2013
Total Fund Balances - Governmental Funds	\$ 168,567,610	\$ 178,621,533
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Land	35,598,568	35,004,846
Construction in Progress	31,903,244	24,705,742
Buildings and Improvements, Net of Accumulated Depreciation	418,860,969	416,408,428
Equipment, Net of Accumulated Depreciation	9,991,353	11,177,168
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bond Principal Payable	(255,871,000)	(262,126,000)
Unamortized Bond Premiums and Discounts	(17,590,226)	(12,117,744)
Certificate of Participation Payable	(128,190,000)	(151,275,000)
Net Other Post Employee Benefit Obligation	(6,900,530)	537,567
Government funds report debt issuance costs as current year expenditures.		
Debt issuance costs are reported as unamortized assets in the government-wide financial statements.	-	3,855,218
Governmental funds do not report a liability for accrued interest on bonds and certificates of participation until due and payable.		
	(6,072,946)	(5,830,019)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		
	2,058,056	2,257,953
Internal service funds are used by management to charge the cost of health, dental, workers compensation, and general liability insurance to individual funds, as well as postemployment benefits. 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 is:	14,303,356	13,417,691
Total Net Position - Governmental Activities	\$ 266,658,454	\$ 254,637,383

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	Major Funds					Total Governmental Funds	
	General	Food Service	Community Service	Capital Project-Building Construction	Debt Service	2014	2013
REVENUES							
Local Sources:							
Property Taxes	\$ 77,700,562	\$ -	\$ 2,419,221	\$ 4,971,017	\$ 62,090,232	\$ 147,181,032	\$ 167,390,654
Earnings on Investments	127,769	(736)	4,117	26,629	581,245	739,024	219,770
Other	17,176,368	2,038,596	8,571,322	621,037	-	28,407,323	27,160,400
Revenue from State Sources	390,144,189	659,818	11,693,633	-	11,292,182	413,789,822	370,952,385
Revenue from Federal Sources	44,219,081	15,517,492	1,740,275	-	1,849,803	63,326,651	68,984,337
Total Revenues	<u>529,367,969</u>	<u>18,215,170</u>	<u>24,428,568</u>	<u>5,618,683</u>	<u>75,813,462</u>	<u>653,443,852</u>	<u>634,707,546</u>
EXPENDITURES							
Current							
Administration	13,879,619	-	-	-	-	13,879,619	13,210,075
District Support Services	22,980,865	-	-	-	-	22,980,865	20,963,914
Elementary and Secondary Regular Instruction	247,063,307	-	-	-	-	247,063,307	245,525,210
Vocational Education Instruction	3,735,366	-	-	-	-	3,735,366	4,038,638
Special Education Instruction	112,831,353	-	-	-	-	112,831,353	108,595,041
Instructional Support Services	38,055,158	-	-	-	-	38,055,158	40,622,211
Pupil Support Services	52,355,745	-	-	-	-	52,355,745	53,807,517
Sites and Buildings	35,180,060	-	-	26,137,667	-	61,317,727	56,741,209
Fiscal and Other Fixed Cost Programs	566,697	-	-	-	-	566,697	539,461
Food Service	-	18,370,838	-	-	-	18,370,838	18,087,541
Community Education and Services	-	-	24,149,215	-	-	24,149,215	23,783,894
Capital Outlay							
Administration	41,830	-	-	-	-	41,830	93,887
District Support Services	3,259,386	-	-	-	-	3,259,386	12,715,728
Elementary and Secondary Regular Instruction	990,882	-	-	-	-	990,882	1,734,496
Vocational Education Instruction	312,715	-	-	-	-	312,715	179,060
Special Education Instruction	108,803	-	-	-	-	108,803	351,790
Instructional Support Services	1,862,496	-	-	-	-	1,862,496	207,546
Pupil Support Services	1,441,336	-	-	-	-	1,441,336	638,219
Sites and Buildings	1,134,965	-	-	24,281,925	-	25,416,890	31,000,742
Food Service	-	606,545	-	-	-	606,545	1,562,619
Community Education and Services	-	-	87,844	-	-	87,844	333,947
Debt Service							
Principal	1,055,711	-	-	-	141,269,289	142,325,000	54,330,000
Interest and Fiscal Charges	-	-	-	-	16,199,472	16,199,472	16,871,133
Total Expenditures	<u>536,856,294</u>	<u>18,977,383</u>	<u>24,237,059</u>	<u>50,419,592</u>	<u>157,468,761</u>	<u>787,959,089</u>	<u>705,933,878</u>
Excess of Revenues Over (Under) Expenditures	(7,488,325)	(762,213)	191,509	(44,800,909)	(81,655,299)	(134,515,237)	(71,226,332)
OTHER FINANCING SOURCES (USES)							
Proceeds from Sale of Capital Assets	10,500	-	-	394,495	997,365	1,402,360	237,557
Bond Issuance	4,338,244	-	-	54,276,756	54,370,000	112,985,000	75,870,000
Bond Premium	267,056	-	-	3,341,199	6,465,699	10,073,954	4,255,732
Payment to Refunded Bond Escrow Agent	-	-	-	-	-	-	(21,545,000)
Transfers In	-	-	-	-	-	-	26,104,494
Transfers Out	-	-	-	-	-	-	(26,104,494)
Total Other Financing Sources (Uses)	<u>4,615,800</u>	<u>-</u>	<u>-</u>	<u>58,012,450</u>	<u>61,833,064</u>	<u>124,461,314</u>	<u>58,818,289</u>
Net Change in Fund Balances	(2,872,525)	(762,213)	191,509	13,211,541	(19,822,235)	(10,053,923)	(12,408,043)
FUND BALANCES							
Beginning of Year	90,131,147	2,001,133	3,110,990	38,744,890	44,633,373	178,621,533	191,029,576
End of Year	<u>\$ 87,258,622</u>	<u>\$ 1,238,920</u>	<u>\$ 3,302,499</u>	<u>\$ 51,956,431</u>	<u>\$ 24,811,138</u>	<u>\$ 168,567,610</u>	<u>\$ 178,621,533</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	2014	2013
Net Change in Fund Balances - Total Governmental Funds	\$ (10,053,923)	\$ (12,408,043)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>		
Capital Outlays	40,444,199	34,547,290
Net Book Value of Disposed Assets	(744,880)	(173,530)
Depreciation Expense	(30,641,369)	(27,471,496)
<p>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 premium 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:</p>		
General Obligation Bond Proceeds	(71,860,000)	(75,870,000)
Certificates of Participation Proceeds	(41,125,000)	-
Payment of Refunded Bond Escrow Agent	-	21,545,000
Bond Premium	(10,073,954)	(4,255,732)
Bond Issuance Costs	-	778,335
Repayment of Certificates of Participation Payable	64,210,000	17,250,000
Repayment of Bond Principal	78,115,000	37,080,000
Change in Accrued Interest Expense	(242,927)	307,342
Amortization of Bond Issuance Costs	-	(650,222)
Amortization of Bond Premiums and Discounts	4,601,472	2,752,377
<p>Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net revenue (loss) of the internal service funds is reported with governmental activities</p>	885,665	(7,522,883)
<p>Net post employment benefit obligations are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.</p>	(7,438,097)	537,567
<p>Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.</p>	(199,897)	(984,868)
Change in Net Position - Governmental Activities	\$ 15,876,289	\$ (14,538,863)

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Local Sources:				
Local Property Taxes	\$ 90,431,826	\$ 93,640,577	\$ 77,700,562	\$ (15,940,015)
Earnings on Investments	-	-	127,769	127,769
Other Local and County Revenues	15,000,000	15,000,004	17,176,368	2,176,364
Revenue from State Sources	363,813,042	369,772,151	390,144,189	20,372,038
Revenue from Federal Sources	55,700,000	55,700,000	44,219,081	(11,480,919)
Total Revenues	<u>524,944,868</u>	<u>534,112,732</u>	<u>529,367,969</u>	<u>(4,744,763)</u>
EXPENDITURES				
Current				
Administration	13,848,248	13,365,762	13,879,619	513,857
District Support Services	45,457,657	30,205,018	22,980,865	(7,224,153)
Elementary and Secondary Regular Instruction	233,626,259	240,295,033	247,063,307	6,768,274
Vocational Education Instruction	3,223,905	3,416,689	3,735,366	318,677
Special Education Instruction	103,570,358	106,288,334	112,831,353	6,543,019
Instructional Support Services	33,349,385	45,645,538	38,055,158	(7,590,380)
Pupil Support Services	49,297,644	49,494,575	52,355,745	2,861,170
Sites and Buildings	30,051,477	30,240,902	35,180,060	4,939,158
Fiscal and Other Fixed Cost Programs	6,719,000	6,719,000	566,697	(6,152,303)
Capital Outlay				
Administration	112,477	48,076	41,830	(6,246)
District Support Services	3,849,791	5,457,801	3,259,386	(2,198,415)
Elementary and Secondary Regular Instruction	299,722	1,068,055	990,882	(77,173)
Vocational Education Instruction	-	294,434	312,715	18,281
Special Education Instruction	68,164	191,206	108,803	(82,403)
Instructional Support Services	115,690	175,588	1,862,496	1,686,908
Pupil Support Services	12,212	(140,164)	1,441,336	1,581,500
Sites and Buildings	1,342,879	1,346,885	1,134,965	(211,920)
Debt Service				
Principal	-	-	1,055,711	1,055,711
Total Expenditures	<u>524,944,868</u>	<u>534,112,732</u>	<u>536,856,294</u>	<u>2,743,562</u>
Excess of Revenues				
Under Expenditures	-	-	(7,488,325)	(7,488,325)
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	-	-	10,500	10,500
Bond Issuance	-	-	4,338,244	4,338,244
Bond Premium	-	-	267,056	267,056
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>4,615,800</u>	<u>4,615,800</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>(2,872,525)</u>	<u>\$ (2,872,525)</u>
FUND BALANCE				
Beginning of Year			<u>90,131,147</u>	
End of Year			<u>\$ 87,258,622</u>	

The Notes to the Financial Statements are an integral part of this statement.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - FOOD SERVICE SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Local Sources:				
Earnings on Investments	\$ -	\$ -	\$ (736)	\$ (736)
Other Local and County Revenues	-	-	228,401	228,401
Revenue from State Sources	706,227	706,227	659,818	(46,409)
Revenue from Federal Sources	15,365,479	15,365,479	15,517,492	152,013
Sales and Other Conversion of Assets	2,499,021	2,499,021	1,810,195	(688,826)
Total Revenues	18,570,727	18,570,727	18,215,170	(355,557)
EXPENDITURES				
Current				
Food Service	17,310,482	17,810,886	18,370,838	559,952
Capital Outlay				
Food Service	1,914,663	1,414,259	606,545	(807,714)
Total Expenditures	19,225,145	19,225,145	18,977,383	(247,762)
Excess of Revenues Over (Under) Expenditures	\$ (654,418)	\$ (654,418)	(762,213)	\$ (107,795)
FUND BALANCE				
Beginning of Year			2,001,133	
End of Year			\$ 1,238,920	

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - COMMUNITY SERVICE SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Local Sources:				
Local Property Taxes	\$ 4,507,238	\$ 4,507,238	\$ 2,419,221	\$ (2,088,017)
Earnings on Investments	-	-	4,117	4,117
Other Local and County Revenues	11,115,480	11,115,480	8,571,322	(2,544,158)
Revenue from State Sources	8,170,310	8,170,310	11,693,633	3,523,323
Revenue from Federal Sources	-	-	1,740,275	1,740,275
Total Revenues	23,793,028	23,793,028	24,428,568	635,540
EXPENDITURES				
Current				
Community Education and Services	24,415,419	24,400,615	24,149,215	(251,400)
Capital Outlay				
Community Education and Services	109,552	124,356	87,844	(36,512)
Total Expenditures	24,524,971	24,524,971	24,237,059	(287,912)
Excess of Revenues Over (Under) Expenditures	\$ (731,943)	\$ (731,943)	191,509	\$ 923,452
FUND BALANCE				
Beginning of Year			3,110,990	
End of Year			\$ 3,302,499	

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**STATEMENT OF NET POSITION - PROPRIETARY FUND
INTERNAL SERVICE FUND
JUNE 30, 2014**

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 50,088,316	\$ 53,913,242
Prepays	66,635	133,269
Total Assets	\$ 50,154,951	\$ 54,046,511
 LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 1,169,835	\$ 1,901,690
Accrued Severance	2,745,182	3,062,688
Loss and Loss Adjustment Reserves:		
Workers' Compensation	2,590,308	3,329,584
Total Current Liabilities	6,505,325	8,293,962
Noncurrent Liabilities:		
Loss and Loss Adjustment Reserves		
Workers' Compensation	1,706,000	1,642,387
Incurred but Not Reported Reserves:		
Workers' Compensation	1,706,000	1,642,387
Property/Casualty	1,227,646	1,485,031
Accrued Severance	24,706,624	27,565,053
Total Liabilities	35,851,595	40,628,820
 Net Position		
Unrestricted	\$ 14,303,356	\$ 13,417,691

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION
PROPRIETARY FUND
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	2014	2013
OPERATING REVENUE		
Local Sources - Charges for Services	\$ 5,910,029	\$ 6,144,438
 OPERATING EXPENSES		
Loss and Loss Adjustments	1,098,283	1,715,675
Claims Administration	82,891	408,333
Workers Compensation and Other Benefits	2,164,125	9,221,237
Severance	1,852,585	2,204,392
Total Operating Expenses	5,197,884	13,549,637
Operating Income	712,145	(7,405,199)
 NONOPERATING REVENUE		
Earnings on Investments	173,520	(117,684)
Change in Net Position	885,665	(7,522,883)
 NET POSITION		
Beginning of Year	13,417,691	20,940,574
End of Year	\$ 14,303,356	\$ 13,417,691

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND
INTERNAL SERVICE FUND
JUNE 30, 2014**

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)

	2014	2013
CASH FLOWS - OPERATING ACTIVITIES		
Receipts from Premiums	\$ 5,976,663	\$ 6,211,073
Claims Administration	(814,746)	(1,879,306)
Claims Paid	(4,131,843)	(1,012,317)
Benefits Paid	(5,028,520)	(21,301,867)
Net Cash Flows - Operating Activities	(3,998,446)	(17,982,417)
 CASH FLOWS - INVESTING ACTIVITIES		
Interest Received	173,520	(117,682)
 Net Change in Cash and Cash Equivalents	(3,824,926)	(18,100,099)
 CASH AND CASH EQUIVALENTS		
Beginning of Year	53,913,242	72,013,341
 End of Year	\$ 50,088,316	\$ 53,913,242
 RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS - OPERATING ACTIVITIES		
Operating Loss	\$ 712,145	\$ (7,405,201)
Adjustments to Reconcile Operating Income to Net Cash Flows - Operating Activities:		
Accounts Payable	(731,855)	(1,470,973)
Prepaid Insurance	66,634	66,635
Loss and Loss Adjustment Reserves	(869,435)	703,358
Accrued Health Insurance Benefits	-	(9,698,736)
Accrued Compensated Absences	(3,175,935)	(177,500)
Net Adjustments	(4,710,591)	(10,577,216)
Net Cash Flows - Operating Activities	\$ (3,998,446)	\$ (17,982,417)

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014**

	Other Post- Employment Benefit Trust
ASSETS	
Current	
Mutual Funds	\$ 16,734,879
Total Assets	\$ 16,734,879
 LIABILITIES	
Accounts Payable	\$ 448,792
Other Payables	2,034,235
Total Liabilities	\$ 2,483,027
 NET POSITION	
Held in Trust for OPEB	\$ 14,251,852

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2014**

	Post Employment Benefits Irrevocable Trust Fund
ADDITIONS	
Interest Revenue	\$ 1,939,297
 DEDUCTIONS	
Employee Benefits	2,607,867
Change in Net Position	(668,570)
 NET POSITION	
Beginning of Year	14,920,422
End of Year	\$ 14,251,852

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Minneapolis Public Schools Special District No. 1 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 has issued a codification of governmental accounting and financial reporting standards titled Codification of Governmental Accounting and Financial Reporting Standards: Statement 34 Edition. This codification and subsequent GASB pronouncements are recognized as GAAP for state and local governments that have implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

This financial report has been prepared in conformity with GASB Statement No. 34.

B. Financial Reporting Entity

Minneapolis Public Schools Special District No. 1 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (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.

GAAP require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable. The District is considered financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of service performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District. The District has no component units.

The District is required to disclose its relationship with related organizations. The District is associated with the West Metro Education Program (WMEP). WMEP is a joint-powers organization formed by ten urban and suburban school districts for the purpose of encouraging inter-district strategies and activities. A Joint Powers Board consisting of members from each of the participating school districts governs WMEP. All funding is conducted in accordance with Minnesota Statutes and is in the form of state grants and tuition from each of the school districts. All WMEP expenditures are paid directly from this funding. Because the District is not financially accountable for WMEP, nor does WMEP raise and hold economic resources for the direct benefit of the District, it is excluded from the reporting entity.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board 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 School Board 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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The Government-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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is 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 government-wide financial statements.

Separate fund financial statements are provided for the 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: other postemployment benefit trust. 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 Government-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 government-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 in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges for service in the form of insurance premiums and early retirement incentive costs. 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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

1. 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 GAAP. 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 revenues 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.

2. 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 inflows of resources and unearned revenue on its balance sheet and government-wide statement of net position. Deferred inflows of resources arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned 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 a legal claim to the resources, the deferred inflows of resources or unearned revenue are removed and revenue is recognized.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Measurement Focus and Basis of Accounting (Continued)

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 the funds included in this report are 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, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues recorded in this fund include charges for meals along with state and federal reimbursement for meals.

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, K-6 extended day programs or other similar services. Revenues included in this fund include property taxes restricted for Community Service purposes and tuition and fees charged for Community Education along with state and federal aid.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific voter-approved bond issues and for large-scale construction activity authorized by the Board under provisions of state law. Revenues are from property taxes restricted for property maintenance and bond proceeds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service except for refunding bond issues, for which a separate refunding bond trust account has been established. Revenues included in this fund are state and federal aid and bond proceeds.

Proprietary Fund

Internal Service Fund – The Internal Service Funds accounts for the 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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Measurement Focus and Basis of Accounting (Continued)

The District's Internal Service Fund has two main purposes:

1. Self-insurance activities for property, liability, and workers' compensation risks.
2. Accumulate and record the liability for accrued compensated absences (severance and vacation).

Fiduciary Fund – The District has established an Other Postemployment Benefit Trust fund for other postemployment benefit payments.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with GAAP. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Debt Service, and Capital Projects Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end.

The District employs the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of applicable appropriation. All unencumbered appropriations lapse at fiscal year-end. Encumbrances are generally re-appropriated in the ensuing year's budget.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board 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 School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Budgeting (Continued)

Budgeted amounts include mid-year budget amendments that increased revenue and expenditure budgets as follows:

<u>Revenues (including Other Financing Sources)</u>	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	\$ 524,944,868	\$ 9,167,864	\$ 534,112,732
<u>Expenditures (including Other Financing Sources)</u>			
General Fund	\$ 524,944,868	\$ 9,167,864	\$ 534,112,732

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which excludes certain reserves specified in Minnesota Statutes, exceeding 2.5% of operating expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

F. Cash and Investments

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described on the following pages.

District Governmental Funds

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and investment balances from all funds, with the exception of the investments related to the OPEB trust 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.

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Debt Service Fund, the refunding bond escrow account held by trustee can be used only to retire refunded bond issues and to pay interest on refunding bond issues until the crossover refunding dates. Interest earned on these investments is allocated directly to the escrow account.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Cash and Investments (Continued)

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U.S. Treasury and agency obligations. Investments in external investment pools operated in a manner consistent with the SEC's Rule 2.a.7 of the Investment Act of 1940 are valued at the pool's share price.

OPEB Trust Fund

These funds represent investments administered by the District's OPEB fund investment managers. As of June 30, 2014, they were comprised of mutual funds. The District's investment policy extends to the OPEB Trust Fund investments.

Minnesota Statutes authorize the OPEB Trust Fund to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

G. Accounts Receivable

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.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on weighted average cost method, along with processing costs, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Property Taxes

The District is located in Hennepin County.

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The County generally remits taxes to the District at periodic intervals as they are collected.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represent uncollected taxes for the past six years, and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2013, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in the fiscal year 2014. The remaining portion of the levy will be recognized when measurable and available.

J. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 records all asset purchases in a capital asset group if the purchase is equal or greater than approximately \$ 5,000 for all equipment. All vehicles and land are capitalized if greater than \$ 5,000 and all building and site improvements are capitalized if greater than \$ 25,000. 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 Government-wide financial statement, 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. The District's capital assets have the following estimated useful lives:

<u>Asset</u>	<u>Useful Life</u>
Buildings	50 Years
Building Improvements	20 Years
Equipment	10 Years
Vehicles	8 Years
Computers	5 Years

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

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings 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 Statement of Net Position. 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 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 issuances are reported as other financing uses. Issuance costs, whether or not withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Compensated Absences

The District's employee vacation and sick leave policies grant to certain groups of employees, if certain conditions are met (see Note 13), a specific number of days of vacation with pay and payment for unused sick leave upon retirement. On June 30, 1998, the District established an internal service fund to accrue for and fund the liability for vacation earned and not yet taken, vested sick pay, salary-related payments, and retiree health insurance benefits due to certain active and retired employees.

Significant assumptions made in estimating the District's severance liability are as follows: (1) annual salary increases of 4.5% annually, (2) discount rate of 4.5%, (3) withdrawal rates were taken from PERA/TRA plans.

N. 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; natural disasters; and injuries to employees for which the District carries commercial insurance and is self-insured for some risks as indicated in Note 12. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2014.

O. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets in these financial statements are labeled "Cash and Investments Held by Trustee".

P. Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investments 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 government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund.

Restricted – funds are constrained from outside parties (statute, grantors, bond agreements, etc.).

Committed – funds are established and modified by a resolution approved by the Board of Education.

Assigned – consists of internally imposed constraints. The Board of Education policy authorized the Superintendent and Superintendent’s administration to assign fund balances and their intended uses.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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 formally adopted a fund balance policy for the General Fund. The policy establishes a year-end minimum unassigned fund balance of no less than 8% of the estimated General Fund expenditures for the following year.

R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of expenditures/expense during the reporting period. Actual results could differ from those estimates.

S. Comparative Data

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 GAAP. Accordingly, such information should be read in conjunction with the District’s financial statements for the year ended June 30, 2014, from which the summarized information was derived.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 2 – STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceed budgeted amounts in the following fund at June 30, 2014:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 534,112,732	\$ 536,856,294	\$ 2,743,562

The excess of expenditures over budget in the General Fund was due to retroactive pay for unsettled employee contracts and various expenditures that were not budgeted.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the statement of net position and the balance sheet as “Cash and Investments.” In accordance with Minnesota Statutes, the District maintains deposits at financial institutions which are authorized by the School District’s Board.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows *Minnesota Statutes* for deposits. *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. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated “A” or better; revenue obligations of a state or local government rated “AA” or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository. As of June 30, 2014, the district had \$ 31,065 in deposits exposed to custodial credit risk because the balance was not fully insured by FDIC nor had collateral pledged against it.

As of June 30, 2014, the book value of the District’s deposits is \$ (2,998,330).

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

Investment Policy:

In accordance with the Minnesota Statutes Chapter 118A and other applicable law, including regulations, the District’s investment policy permits making deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in the State of Minnesota. The District is allowed to invest in U.S. Treasury or Federal Agency obligations, commercial paper related “A-1” or higher and that matures in 270 days or less at the time of purchase, collateralized certificates of deposit, repurchase agreements backed by government collateral, and bankers’ acceptances of the top 40 U.S. banks.

The District’s investment policy establishes limitations on the holdings on non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

U.S. Treasury/U.S. Government Agencies	100% Maximum
Domestic Commercial Paper (“A-1”/”P-1”)	100% Maximum
Collateralized Investment Agreements	100% Maximum
Eligible Bankers’ Acceptances	30% Maximum
Repurchase Agreements	25% Maximum
Collateralized Certificates of Deposit	30% Maximum

The District’s investment policy with regards to its deposits and investments are in accordance with statutory authority.

Credit Risk:

This is the risk an issuer of an investment will not fulfill its obligation to the holder of the investment. The District’s investment policy requires that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from Moody’s Investors Service and/or Standard & Poor’s. As of June 30, 2014, the District held no commercial paper.

As of June 30, 2014, 19.61% of the District’s investments were in “AAA” rated government bonds that were direct obligations or guaranteed issues of the United States, its agencies, instrumentalities, or organizations created by Congress; 79.47% was invested in the Minnesota School District Liquid Asset Fund Plus which is rated “AAAm”; and .42% were invested in Certificates of Deposits. The remaining .50% of the portfolio was invested in a money market fund.

Concentration of Credit Risk:

The District’s investment policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than \$ 5,000,000 of the District’s portfolio will be invested in the securities of any single commercial paper issuer. The District did not hold commercial paper as of June 30, 2014.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Custodial Credit Risk:

GASB 40 requires disclosure of all uninsured investment securities purchased by the District or held as collateral on deposits or investments that are not registered in the name of the Minneapolis Public Schools, and held by the counterparty to the investment transactions. The District's investments held by one broker-dealer were insured by SIPC or other supplemental insurance as of June 30, 2014. However, each investment brokerage firm may have a limit to their supplemental insurance and because of the size of the District's portfolio in relation to the brokerage firm's excess SIPC coverage limits, the portion of the supplemental policy applicable to the District's portfolio is unknown. In addition to these investments, the District also maintains investments in another custodial account. These investments are not registered in the District's name, but in the custodian's name for the benefit of the District.

Interest Rate Risk:

This is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates. The District's investment policy states that investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, taking into account constraints on risk and other criteria requirements. As of June 30, 2014, the market values, duration, and percent allocation of the District's investments were as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturities (In Years)</u>	<u>Percent Allocation</u>
Pooled Investments:			
MSDLAF+ Liquid Class	\$ 40,695,074	N/A	14.85%
MSDLAF+ Max Class	177,045,453	N/A	64.62%
Federal Home Loan Bank (FHLB)	5,564,599	1.56	2.03%
U.S. Treasury Securities	26,351,066	1.50	9.62%
Fannie Mae	17,980,870	1.61	6.56%
Freddie Mac	1,960,838	3.00	0.72%
G.O. Bonds	919,241	1.89	0.34%
Brokered Certificates of Deposit	1,137,304	1.48	0.42%
Agency	953,960	3.38	0.35%
Cash/Money Market Funds	1,376,316	N/A	0.50%
Total Pooled Investments	\$ 273,984,720		100.00%

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

As of June 30, 2014, the market values, duration, and percent allocation of the District’s OPEB Trust investments was as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturities (In Years)</u>	<u>Percent Allocation</u>
OPEB Investments:			
Mutual Funds	\$ 16,827,432	N/A	99.81%
Cash/Money Market Funds	32,288	N/A	0.19%
Total OPEB Investments	<u>\$ 16,859,720</u>		<u>100.00%</u>

Cash and Investments Held by Trustee

Cash and investments of \$ 13,486,443 are held by an escrow agent in accordance with escrow agreements established with the sale of certain bonds. As of June 30, 2014, the market values, duration, and percent allocation of the District’s Cash with Fiscal Agents is:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturities (In Years)</u>	<u>Percent Allocation</u>
Cash and Investments Held by Trustee:			
Cash	\$ 4,591,144	N/A	34.04%
U.S. Treasury Securities	8,895,300	6.49	65.96%
Total	<u>\$ 13,486,444</u>		<u>100.00%</u>

C. Deposits and Investments

The following is a summary of total deposits & investments:

District Governmental Funds:	
Deposits (Note 3.A.)	\$ (2,998,330)
Investments (Note 3.B.)	273,984,720
Cash and Investments with Trustee (Note 3.B.)	13,486,444
OPEB Trust Fund:	
Investments (Note 3.B.)	<u>16,859,720</u>
Total Deposits and Investments	<u><u>\$ 301,332,554</u></u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Deposits and Investments (Continued)

Deposits and investments are presented in the June 30, 2014 basic financial statements as follows:

Statement of Net Position:

Cash and Investments	\$	271,111,232
Cash with Fiscal Agent		13,486,443

Statement of Fiduciary Net Position:

OPEB Trust Fund		16,734,879
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Total Deposits and Investments	\$	<u>301,332,554</u>
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NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 35,004,846	\$ 641,371	\$ (47,649)	\$ 35,598,568
Construction in Progress	<u>24,705,742</u>	<u>30,610,842</u>	<u>(23,413,340)</u>	<u>31,903,244</u>
Total Capital Assets not being Depreciated	<u>59,710,588</u>	<u>31,252,213</u>	<u>(23,460,989)</u>	<u>67,501,812</u>
Capital Assets being Depreciated:				
Buildings	889,457,786	30,970,377	(5,668,554)	914,759,609
Machinery and Equipment	<u>64,420,178</u>	<u>1,634,950</u>	<u>(172,087)</u>	<u>65,883,041</u>
Total Capital Assets being Depreciated	<u>953,877,964</u>	<u>32,605,327</u>	<u>(5,840,641)</u>	<u>980,642,650</u>
Less Accumulated Depreciation for:				
Buildings	473,049,358	27,820,606	(4,971,324)	495,898,640
Machinery and Equipment	<u>53,243,010</u>	<u>2,820,764</u>	<u>(172,086)</u>	<u>55,891,688</u>
Total Accumulated Depreciation	<u>526,292,368</u>	<u>30,641,370</u>	<u>(5,143,410)</u>	<u>551,790,328</u>
Total Capital Assets being Depreciated, Net	<u>427,585,596</u>	<u>1,963,957</u>	<u>(697,231)</u>	<u>428,852,322</u>
Governmental Activities, Capital Assets Net	<u>\$ 487,296,184</u>	<u>\$ 33,216,170</u>	<u>\$ (24,158,220)</u>	<u>\$ 496,354,134</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 4 – CAPITAL ASSETS

Depreciation expense of \$ 30,699,999 for the year ended June 30, 2014 was charged to the following governmental functions:

Administration	\$ 108,739
District Support Services	518,072
Regular Instruction	22,022,632
Vocational Education Instruction	27,401
Special Education Instruction	368,535
Community Education	79,141
Instructional Support Services	80,199
Pupil Support Services	1,291,134
Food Service	258,694
Sites and Buildings	<u>5,886,823</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 30,641,370</u>

At June 30, 2014, The District carried three vacant closed school buildings in the above amounts. The value of these assets, net depreciation, recorded on the District's financial statements, totaled approximately \$ 3.6 million.

NOTE 5 – LEASES

The District leases data processing equipment, buildings, and other miscellaneous equipment through various operating leases. All of the leases include the provision that the District has the right to terminate the agreement at the end of any fiscal year during the term as required by Minnesota Statutes. The annual operating lease rental expense is not considered material to the financial position or results of operations of the District.

NOTE 6 – LONG-TERM LIABILITIES

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 – LONG-TERM LIABILITIES

A. Components of Long-Term Debt

	Issue Date	Interest Rates	Original Issue	Maturity Date	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
G.O. Bonds, Including						
Refunding Bonds:						
	06/15/02	3.00-5.00%	\$ 3,411,000	06/25/16	\$ 3,411,000	\$ -
	12/27/07	4.00-4.125%	28,845,000	02/01/23	14,010,000	1,325,000
	09/25/08	3.00-4.125%	24,645,000	02/01/24	15,060,000	1,265,000
	12/15/09	1.15%	17,200,000	02/15/25	17,200,000	-
	12/28/10	2.00-4.00%	17,940,000	2/1/2018	12,245,000	2,970,000
	12/28/10	2.00-4.00%	7,750,000	2/1/2021	4,330,000	1,160,000
	12/28/10	5.13%	19,785,000	12/15/2025	19,785,000	-
	07/26/11	2.00-4.00%	10,525,000	2/1/2020	9,130,000	1,410,000
	12/01/11	3.00-4.00%	16,770,000	2/1/2027	13,965,000	1,515,000
	12/01/11	3.80%	4,260,000	12/15/2025	4,260,000	-
	12/18/12	2.00-3.00%	21,220,000	2/1/2033	20,040,000	1,260,000
	12/18/12	2.00-3.00%	18,550,000	2/1/2033	17,800,000	820,000
	12/18/12	1.50-4.00%	10,285,000	2/1/2016	6,960,000	3,430,000
	12/18/12	3.00-4.00%	9,285,000	2/1/2022	9,285,000	1,180,000
	12/18/12	2.00%	16,530,000	2/1/2022	16,530,000	1,915,000
	12/04/13	3.00-4.00%	20,525,000	2/1/2029	20,525,000	1,360,000
	12/04/13	4.00-5.00%	38,090,000	2/1/2034	38,090,000	995,000
	12/04/13	5.00%	13,245,000	2/1/2017	13,245,000	6,560,000
Total General Obligation Bonds			\$ 298,861,000		\$ 255,871,000	\$ 27,165,000
	11/12/02	2.50-5.00%	16,750,000	2/1/2015	1,270,000	1,270,000
	11/04/09	3.00-4.0%	22,850,000	2/1/2017	10,495,000	3,395,000
	12/28/10	6.50%	12,990,000	4/1/2036	12,990,000	-
	12/28/10	1.40-6.5%	28,235,000	4/1/2030	24,840,000	1,255,000
	07/26/11	2.00-5.00%	31,255,000	2/1/2020	20,845,000	3,635,000
	12/01/11	2.00-3.20%	19,705,000	2/1/2023	16,625,000	1,670,000
	12/04/13	5.00%	41,125,000	2/1/2021	41,125,000	6,270,000
Total Certificates of Participation			172,910,000		128,190,000	17,495,000
Bond Premium					17,592,815	-
Bond Discounts					(2,589)	-
Self Insurance Reserves and Postemployment Benefits					34,681,760	5,335,490
					\$ 436,332,986	\$ 49,995,490

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 – LONG-TERM LIABILITIES

B. Minimum Debt Payments

Year Ending June 30,	Certificates of Participation Payable		G.O. Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 17,495,000	\$ 6,290,547	\$ 27,165,000	\$ 9,272,833
2016	17,060,000	5,337,668	28,201,000	7,847,010
2017	17,695,000	4,659,593	21,140,000	6,998,413
2018	14,605,000	3,908,218	17,380,000	6,236,735
2019	13,940,000	3,264,048	14,240,000	5,623,750
2020-2024	23,470,000	10,148,618	57,275,000	20,881,057
2025-2029	8,935,000	6,630,825	69,560,000	8,749,780
2030-2034	10,345,000	3,562,325	20,910,000	2,213,550
2035-2036	4,645,000	455,650	-	-
Total	<u>\$ 128,190,000</u>	<u>\$ 44,257,492</u>	<u>\$ 255,871,000</u>	<u>\$ 67,823,128</u>

C. Description of Long-Term Liabilities

General Obligation School Building Bonds

These bonds were issued to finance acquisitions and/or construction of capital facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to the retirement of these bonds.

On December 4, 2013, the District issued \$ 20,525,000 of General Obligation School Building Bonds, Series 2013A. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

On December 4, 2013, the District issued \$ 38,090,000 of General Obligation Alternative Facility Bonds, Series 2013B. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

On December 4, 2013, the District issued \$ 13,245,000 of General Obligation Refunding Bonds, Series 2013C. The proceeds of this issue were used on December 4, 2013 to refund, in advance of their stated maturities, the remaining fiscal 2015 through 2017 maturities of the District's General Obligation Bond, 2005 Series, totaling \$ 14,310,000. After the current refunding, the District assumes full debt service of the principal and interest payments on the 2013C issue. The refunding reduced the District's total future debt service payments for this series of bonds by \$ 1,063,394 and resulted in a present value savings of approximately \$ 1,053,335.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 – LONG-TERM LIABILITIES

C. Description of Long-Term Liabilities (Continued)

Crossover Bonds

On December 18, 2012 the District issued \$ 9,285,000 of General Obligation Refunding Bonds, Series 2012D. The proceeds of this issue were used on February 1, 2014 to refund, in advance of their stated maturities, the remaining fiscal 2015 through 2022 maturities of the District's General Obligation Bond, 2006A Series, totaling \$ 10,125,000.

On December 18, 2012, the District issued \$ 16,530,000 of General Obligation Refunding Bonds, Series, 2012E. The proceeds of this issue were used on February 1, 2014 to refund, in advance of their stated maturities, the remaining fiscal 2015 through 2022 maturities of the District's General Obligation Bond, 2006B Series, totaling \$ 16,505,000.

Certificates of Participation

On December 4, 2013, the District issued \$ 41,125,000 Refunding Certificates of Participation, Series 2013D. The proceeds of this issue were used on December 4, 2013 to refund, in advance of their stated maturities, the remaining fiscal 2015 through 2021 maturities of the District's Certificate of Participation, 2005 Series, totaling \$ 46,210,000. After the current refunding, the District assumes full debt service of the principal and interest payments on the 2013D issue. The refunding reduced the District's total future debt service payments for this series of bonds by \$ 4,777,252 and resulted in a present value savings of approximately \$ 4,551,884. The total principal amount of certificates of participation outstanding will be retired by property tax levies in the Debt Service Fund.

Self Insurance Reserves and Post Employment Benefits

See Notes 12 and 13 for detailed information on the District's Self Insurance Plan, Compensated Absences, and Retiree Health Insurance Benefits.

D. Changes in Long-Term Debt

	June 30, 2013	Additions	Retirements	June 30, 2014
Governmental Activities				
Bonds Payable:				
General Obligation Bonds	\$ 262,126,000	\$ 71,860,000	\$ (78,115,000)	\$ 255,871,000
Bond Premium	12,128,815	10,073,954	(4,606,954)	17,592,815
Bond Discount	(11,071)	-	8,482	(2,589)
Certificates of Participation Payable	151,275,000	41,125,000	(64,210,000)	128,190,000
Self Insurance Reserves and Post Employee Benefits	38,727,130	-	(4,045,370)	34,681,760
Total Governmental Activity Long-Term Liabilities	<u>\$ 464,245,874</u>	<u>\$ 123,058,954</u>	<u>\$ (150,968,842)</u>	<u>\$ 436,332,986</u>

**MINNEAPOLIS PUBLIC SCHOOLS
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 7 – RESTRICTED FUND BALANCES

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. Administration also has the authority to internally assign portions of fund balance for specific purposes. Other amounts are identified as non-spendable as disbursement has been made for a good or service that will benefit future periods.

Restricted and nonspendable/assigned fund balances at June 30, 2014 are as follows:

	Restricted	Nonspendable/ Assigned
General Fund		
Restricted for Area Learning Center	\$ 1,194,107	-
Restricted for Gifted and Talented	389,244	-
Restricted for Health and Safety	596,702	-
Restricted for Other Purposes	75,483	-
Nonspendable for Prepaid Items	-	74,905
Nonspendable for Inventory	-	821,613
Assigned for Referendum - Class Size	-	(222,744)
Assigned for Alternative Compensation	-	5,704,151
Assigned for Referendum - Other	-	4,348,874
Assigned for Reemployment Insurance	-	1,226,091
Assigned for Site Carryover	-	18,020,019
Assigned for New ESC Debt Payments	-	10,116,285
Total General Fund	2,255,536	40,089,194
Special Revenue Fund:		
Food Service Fund:		
Restricted for Other Purposes	474,646	-
Nonspendable for Inventory	-	764,274
Community Service Fund:		
Restricted for School Readiness	1,438	-
Restricted for Adult Basic Education	504,789	-
Restricted for Community Education Programs	2,327,367	-
Restricted for Early Childhood and Family Education Programs	446,898	-
Restricted for Other Purposes	22,007	-
Total Special Revenue Funds	3,777,145	764,274
Capital Projects - Building Construction Fund:		
Restricted for Alternative Facility Program	32,835,469	-
Restricted for Building Construction	19,120,962	-
Total Building Construction Fund	51,956,431	-
Debt Service:		
Restricted for QSCB/QZAB	11,507,867	-
Restricted for Other Purposes	13,303,271	-
Total Debt Service Fund	24,811,138	-
Total All Funds	\$ 82,800,250	\$ 40,853,468

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 7 – RESTRICTED FUND BALANCES

Restricted for Area Learning Center – Restricted for students attending Area Learning Centers.

Restricted for Gifted and Talented – The fund balance restriction represents gifted and talented resources to be used to identify gifted and talented students, to provide programs for those students, and to train teachers for working with gifted and talented students.

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 Statutes, a deficit in this reserve generates specific future levy authority.

Restricted for School Readiness Programs – The fund balance restriction represents accumulated resources available to provide school readiness programming.

Restricted for Adult Basic Education – The fund balance restriction represents accumulated resources available to provide adult basic education services.

Restricted for Community Education Programs – The fund balance restriction represents accumulated resources available to provide general community education programming.

Restricted for Early Childhood and Family Education Programs – This fund balance restriction represents accumulated resources available to provide services for early childhood and family education programming.

Restricted for Alternative Facility Program – Represents available resources to be used for alternative facilities projects.

Restricted for Building Construction – Restricted for building construction represents available resources to fund construction expenditures on current and future contracts.

Restricted for QSCB/QZAB – The fund balance restriction represents resources required by agreement to be segregated for future payments of Qualified Zone Academy Bond (QZAB) or Qualified School Construction Bonds (QSCB) debt instruments.

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 8 – INTERFUND BALANCES AND OPERATING TRANSFERS

The District had the following interfund receivable and payable at June 30, 2014:

	Due from Other Fund	Due to Other Fund
General Fund	\$ 1,704,103	\$ -
Food Service Special Revenue Fund	-	1,704,103
	\$ 1,704,103	\$ 1,704,103

These interfund balances were for cash flow purposes.

NOTE 9 – RETIREMENT PLANS

Minneapolis Teachers Retirement Fund Association

Effective June 30, 2006, the Minnesota Legislature merged the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association of Minnesota (TRA). At June 30, 2006, the MTRFA ceased to exist. All assets of the MTRFA were transferred to the TRA.

Teacher’s Retirement Association (TRA)

A. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. These Plans are established and administered in accordance with *Minnesota Statutes* Chapter 354 and 356.

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

Two methods are used to compute benefits for TRA’s Coordinated and Basic Plan members. Members first employed before July 1, 1989 receive the greater of the Tier I or Tier II benefits as described:

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 9 – RETIREMENT PLANS

Teacher’s Retirement Association (TRA) (Continued)

A. Plan Description (Continued)

Tier I Benefits:

Tier I	Step Rate Formula	Percentage
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are prior to July 1, 2006	1.2% per year
	First 10 years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are prior to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

- Normal retirement at age 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- Three percent per year early retirement reduction factors for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Tier II Benefits:

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0% to 5.4% per year.

**MINNEAPOLIS PUBLIC SCHOOLS
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 9 – RETIREMENT PLANS

Teacher's Retirement Association (TRA) (Continued)

A. Plan Description (Continued)

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

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

The benefit provisions stated apply to active Plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance and further information on benefits provisions. The report may be accessed at the TRA web site www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, #400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-2409 or (800) 657-3669.

B. 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 6.5% and 10.0%, respectively, of their annual covered salary during year 2013 as employee contributions. The TRA employer contribution rates are 6.5% for Coordinated Plan members and 10.5% for Basic Plan members during 2013. Total covered payroll salaries for all TRA members state-wide during the year ended June 30, 2013 was approximately \$ 3.92 billion. TRA covered payroll for all members state-wide for the years ended June 30, 2012 and 2011 were \$ 3.87 billion and \$ 3.84 billion, respectively. The District's contributions for the years ended June 30, 2014, 2013 and 2012 were \$ 26,717,598, \$ 24,195,993 and \$ 22,152,254, respectively, equal to the required contributions for each year as set by state statute.

The 2010 State 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% each year of the four year period, ending in 2014. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5%.

**MINNEAPOLIS PUBLIC SCHOOLS
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 9 – RETIREMENT PLANS

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees (nonteacher) of the District are covered by defined benefit plans administered by the 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 or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of the average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the Fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active Plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 9 – RETIREMENT PLANS

Public Employees' Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. In 2013, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees' Retirement Fund for the years ended June 30, 2014, 2013 and 2012 were \$ 7,641,473, \$ 7,392,682 and \$ 7,015,387, respectively, equal to the contractually required contributions for each year as set by state statute.

Minneapolis Employees Retirement Fund

A. Plan Description

Certain non-certificate personnel participate in the defined benefit pension plan administered by the Minneapolis Employees Retirement Fund (MERF), which is a cost-sharing multiple-employer retirement plan.

Non-certified personnel are eligible for retirement either with 30 or more years of service at any age; at age 60 with three or more years of service; at age 65 with one year of service; or with 20 or more years of service at age 55 under the Two Dollar Bill Option (if a MERF member prior to June 28, 1973 and thereby are entitled to a retirement benefit, payable under a variety of options). Benefits are based on the average of the highest five years of a member's salary received within the last ten years of employment. The employee will receive a benefit amount of 2.0% of that average salary for each of the first ten years of service and 2.5% of that salary for each year over ten years of service.

B. Funding Policy

Minnesota Statutes Chapter 422A sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plan equal to the amount required by state statute. Plan members are required to contribute 9.25% and 0.5% of their total compensation for retirement benefits and survivor benefits, respectively. The District and the State of Minnesota are required to contribute the remaining amounts necessary to apply benefits when due, plus amounts to cover administrative costs. The District's contributions to the Minneapolis Employees Retirement Fund for the years ended June 30, 2014, 2013 and 2012 were \$ 796,132, \$ 806,289, and \$ 875,822, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

Based on pension legislation passed in fiscal year 2010, as of July 1, 2010, all of MERF's administrative responsibilities were transferred to a MERF Division of PERA. The District, as the employer, matches the plan member contribution of 9.75% and pays an additional 2.68% of total salary now and into the future. In addition, the District makes a supplemental contribution. For fiscal year 2011 and annually thereafter until June 30, 2020, the District will contribute \$ 731,125. Per Minnesota Statute 353.50, Subdivision 7, The District was also required to pay an additional \$ 6,220,800 for the first time in 2014.

**MINNEAPOLIS PUBLIC SCHOOLS
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 9 – RETIREMENT PLANS

Deferred Compensation Plans

The District sponsors various Internal Revenue Code Section 457 and 403b deferred compensation plans, covering certain employees, whereby the District has agreed to match contributions of its employees at rates specified in the applicable labor contracts. The amount expensed related to such agreements during 2014 was \$ 2,600,346.

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides health and dental insurance benefits for certain retired employees under a single-employer fully-insured plan. The District provides benefits for retirees as required by Minnesota Statute §471.61 subdivision 2b. Active employees who retire from the District when eligible to receive a retirement benefit from PERA, TRA, or MERF and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the District's health benefits program until age 65. Pursuant to the provisions of the plan, retirees are required to pay varying percentages of the total premium cost. The plan does not issue a publically available financial report.

B. Funding Policy

The District funds its OPEB obligation on a pay as you go basis. For fiscal year 2014, the District did not contribute to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 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 (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for 2014, the amount actually contributed to the plan, and changes in the District's net OPEB obligation (asset):

Annual Required Contribution	\$ 7,495,287
Interest on Net OPEB Obligation	(24,190)
Adjustment to ARC	(33,002)
Annual OPEB Cost (Expense)	<u>7,438,095</u>
Contributions Made	<u>-</u>
Increase in net OPEB Obligation	7,438,095
Net OPEB Obligation - Beginning of Year	(537,565)
Net OPEB Obligation - End of Year	<u><u>\$ 6,900,530</u></u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for the current year and the preceding two years were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obigation
06/30/14	\$ 7,438,095	\$ -	35%	\$ 6,900,530
06/30/13	9,110,237	19,346,538	212%	(537,565)
06/30/12	9,176,159	5,154,441	56%	9,698,736

D. Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the District’s unfunded actuarial accrued liability (UAAL) was \$ 55,666,976. The annual payroll for active employees covered by the plan in the actuarial valuation was \$ 351,399,830 for a ratio of UAAL to covered payroll of 15.8%.

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

Actuarial valuations 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.

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

In the July 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of the District. The annual healthcare cost trend rate is 9.5% initially, reduced incrementally to an ultimate rate of 5.0% after ten years. The unfunded actuarial accrued liability is being amortized as a percent of payroll over a closed 30-year period.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN

F. Condensed Financial Statements

The financial statements for the OPEB Plan are reported below because the OPEB Plan does not issue a separate report.

**OPEB PLAN
STATEMENT OF PLAN NET POSITION
June 30, 2014**

ASSETS	
Mutual Funds	<u>\$ 16,734,979</u>
LIABILITIES	
Payables	<u>\$ 2,483,027</u>
NET POSITION	
Held in Trust for OPEB	<u>\$ 14,251,852</u>

**STATEMENT OF CHANGES IN PLAN NET POSITION
For the Year ended June 30, 2014**

ADDITIONS	
Interest Revenue	\$ 1,939,297
DEDUCTIONS	
Employee Benefits	<u>2,607,867</u>
Change in Net Position	(668,570)
NET POSITION	
Beginning of Year	<u>14,920,422</u>
End of Year	<u>\$ 14,251,852</u>

1. Notes to the Condensed Financial Statements

a. Plan Provisions

The Plan is described in detail on the previous pages, including Plan provisions and the authority for Plan changes.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN

F. Condensed Financial Statements (Continued)

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements shown above and on the previous page are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which the employee services are performed. Benefits are recognized when due and payable.

b. Investments

The details of the investments and the investment policy are described in Note 1.D. of the District's financial statements.

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make various estimates. Actual results could differ from those estimates.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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 fund. 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.

B. Contingencies

The District is subject to legal proceedings and claims which arise in the ordinary course of business. Management has accrued claims payable in the amount of \$ 7,229,954 as disclosed in Note 12 for general liability, auto liability, and worker's compensation claims.

C. Teachers Retirement Association

The District is required to levy for and contribute amounts to Minnesota Teachers Retirement Association under Minnesota statutes totaling \$ 2,250,000 each year, due by October 1. These amounts are in addition to amounts required for employer contributions as stated in Note 9.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 11 – COMMITMENTS AND CONTINGENCIES

D. Construction Commitments

The District has in process various multi-year construction and repair projects which were not completed in the current fiscal year. As of June 30, 2014, outstanding commitments for these multi-year projects total approximately \$ 201,650,224.

NOTE 12 – RISK MANAGEMENT

The District accounts for the risk management activities of workers' compensation and general liability exposure in its Self-Insurance Fund, a proprietary-type Internal Service Fund. Inter-fund premiums for coverage are charged to activities of user funds as quasi-external transactions. The District purchases insurance coverage for its property exposure, with an aggregate coverage amount of \$ 100,000,000.

The District is self-insured for workers' compensation coverage and caps its liability with the purchase of reinsurance coverage. The District is a member of Workers' Compensation Reinsurance Association (WCRA), which reimburses members for individual claim losses exceeding a member's chosen retention limit. The retention limit for the District at June 30, 2014 and 2013 was \$ 1,880,000.

Liabilities of \$ 6,002,308 have been recorded in the Self-Insurance Fund for known workers' compensation claims and for claims incurred but not reported as of June 30, 2014. The recorded reserves are actuarially evaluated annually and adjusted accordingly. The discount rate used at June 30, 2014 was 4.0%.

The District became self-insured for general liability for claims incurred after January 1, 1990 through June 30, 1999, and for claims incurred after July 1, 2001 (the self-insurance period). The District purchased general liability insurance from Royal Insurance covering the period from July 1, 1999 through June 30, 2001. Claims incurred during the self-insurance period are the responsibility of the District. Minnesota Statutes limit the maximum liability of a public employer to \$ 300,000 per claimant and \$ 1,000,000 for claims from a single event. There are several lawsuits pending in which the District is involved. The District estimates that the potential claims against the District that are not covered by insurance or reserves resulting from such litigation would not materially affect the District's financial statements. Liabilities of \$ 1,227,646 have been established to cover such claims as of June 30, 2014

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 12 – RISK MANAGEMENT

The following summarizes claims activity in the District’s self-insurance internal service fund:

Claims Incurred but Not Reported or Case	
Reserves at June 30, 2012	\$ 7,396,031
Claims Incurred Fiscal Year 2013	10,936,914
Claims Paid Fiscal Year 2013	<u>(10,233,556)</u>
Claims Incurred but Not Reported or Case	
Reserves at June 30, 2013	8,099,389
Claims Incurred, Fiscal Year 2014	3,262,408
Claims paid, Fiscal Year 2014	<u>(4,131,843)</u>
Claims Incurred but Not Reported or Case	
Reserves at June 30, 2014	<u><u>\$ 7,229,954</u></u>

The District maintains commercial coverage for property insurance and health insurance.

NOTE 13 – COMPENSATED ABSENCES

Employees of the District are eligible for severance pay based on unused sick leave as follows:

A. Civil Service

(1) All Civil Service Except Civil Service Administrators

Employees and officers who at the time of retirement have accrued sick leave credit of no less than 60 days, and who have no less than 20 years of qualified service as computed for retirement purposes, or who have reached age 60, or who are required to retire earlier because of disability or having reached retirement age, receive severance pay amounting to one-half of the daily rate of pay for the position held by the employee on the day of retirement for each day or accrued sick leave subject to a minimum of 60 days and a maximum of 200 days.

(2) Civil Service Administrators

Employees who have accrued ten years or more of continuous service receive severance pay upon any separation, except for discharge for cause. Employees with less than ten years of continuous service with the employer receive severance pay upon mandatory retirement or retirement at or after age 65, death, or layoff. Severance pay equals 100% of the employee’s accumulated unused sick leave balance, not to exceed 900 hours.

B. Administrators

Employees who are at least 55 years of age or who are credited with 30 years of service by the Minneapolis Teachers Retirement Fund Association (MTRFA) may be eligible to receive payment for 50% of unused sick leave.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 13 – COMPENSATED ABSENCES

C. Principals and Teachers

Employees who are at least 55 years of age or who are credited with 30 years of service by the MTRFA receive payment for 50% of unused sick leave.

All amounts of vested sick pay are accrued as liabilities in the Internal Service Post Retirement Benefits Fund.

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$ 3,855,218 to remove deferred charges no longer required to be amortized in accordance with GASB Statement No. 65.

NOTE 15 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent to year-end, the District approved the issuance of General Obligation School Building Bonds, Series 2014A for \$ 21,300,000; General Obligation Alternative Facility Bonds, Series 2014B for \$ 45,090,000; General Obligation Refunding Bonds, Series 2014C for \$ 11,785,000; and Lease-Purchase Agreement, Series 2014D for \$ 138,170,000.

REQUIRED SUPPLEMENTARY INFORMATION

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FUNDING PROGRESS –
OTHER POST EMPLOYMENT BENEFITS
June 30, 2014**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/13	\$ 14,920,422	\$ 70,587,398	\$ 55,666,976	21.1%	\$351,399,830	15.8%
07/01/11	-	83,387,021	83,387,021	0.0%	326,581,564	25.5%
07/01/09	-	91,878,142	91,878,142	0.0%	301,334,000	30.5%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS –
OTHER POST EMPLOYMENT BENEFITS
June 30, 2014**

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contributions</u>	<u>Percentage of Annual OPEB Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
06/30/12	\$ 9,176,159	\$ 5,154,441	56%	\$ 9,698,736
06/30/13	9,110,237	19,346,538	212%	(537,565)
06/30/14	7,438,095	-	0%	6,900,530

SUPPLEMENTARY INFORMATION

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2014**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 529,367,969	\$ 529,367,964	\$ 5	Total Revenue	\$ 5,618,683	\$ 5,618,683	\$ -
Total Expenditures	536,856,294	536,856,340	(46)	Total Expenditures	50,419,592	50,419,595	(3)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	896,518	896,517	1	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	32,835,469	32,835,469	-
406 Health and Safety	596,702	596,702	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	19,120,962	19,120,961	1
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned Fund Balance	-	-	-
417 Taconite Building Maintenance	-	-	-				
423 Certain Teacher Programs	-	-	-	07 DEBT SERVICE FUND			
424 Operating Capital	-	-	-	Total Revenue	\$ 75,813,462	\$ 75,813,463	\$ (1)
426 \$ 25 Taconite	-	-	-	Total Expenditures	157,468,761	157,468,761	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	1,194,107	1,194,107	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refundings	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB and QSCB Payments	11,507,867	11,507,867	-
438 Gifted and Talented	389,244	389,244	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted Fund Balance	13,303,271	13,303,271	-
445 Career Technical Programs	-	-	-	<i>Unassigned:</i>			
449 Safe School Crime	-	-	-	463 Unassigned Fund Balance	-	-	-
450 Transition for Pre-Kindergarten	-	-	-				
451 QZAB and QSCB Payments	-	-	-	08 TRUST FUND			
452 OPEB Liabilities not Held in Trust	-	-	-	Total Revenue	\$ -	\$ -	\$ -
453 Unfunded Severance and Retirement Levy	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance	75,483	75,483	-	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Committed:</i>							
418 Committed for Separation	-	-	-	20 INTERNAL SERVICE FUND			
461 Committed	-	-	-	Total Revenue	\$ 6,083,549	\$ 6,083,550	\$ (1)
<i>Assigned:</i>				Total Expenditures	5,197,884	5,197,885	(1)
462 Assigned Fund Balance	39,192,676	39,192,676	-	<i>Unassigned:</i>			
<i>Unassigned:</i>				422 Unassigned Fund Balance (Net Position)	14,303,356	14,303,356	-
422 Unassigned Fund Balance (Net Position)	44,913,892	44,913,894	(2)				
				25 OPEB REVOCABLE TRUST			
02 FOOD SERVICES FUND				Total Revenue	\$ -	\$ -	\$ -
Total Revenue	\$ 18,215,170	\$ 18,215,170	\$ -	Total Expenditures	-	-	-
Total Expenditures	18,977,383	18,977,383	-	<i>Unassigned:</i>			
<i>Nonspendable:</i>				422 Unassigned Fund Balance (Net Position)	-	-	-
460 Nonspendable Fund Balance	764,274	764,272	2				
<i>Restricted/Reserved:</i>				45 OPEB IRREVOCABLE TRUST			
452 OPEB Liabilities not Held in Trust	-	-	-	Total Revenue	\$ 1,939,297	\$ 1,939,298	\$ (1)
<i>Restricted:</i>				Total Expenditures	2,607,867	2,607,867	-
464 Restricted Fund Balance	474,646	474,647	(1)	<i>Unassigned:</i>			
<i>Unassigned:</i>				422 Unassigned Fund Balance (Net Position)	14,251,852	14,251,853	(1)
463 Unassigned Fund Balance	-	-	-				
				47 OPEB DEBT SERVICE			
04 COMMUNITY SERVICE FUND				Total Revenue	\$ -	\$ -	\$ -
Total Revenue	\$ 24,428,568	\$ 24,428,567	\$ 1	Total Expenditures	-	-	-
Total Expenditures	24,237,059	24,237,072	(13)	<i>Nonspendable:</i>			
<i>Nonspendable:</i>				460 Nonspendable Fund Balance	-	-	-
460 Nonspendable Fund Balance	-	-	-	<i>Restricted:</i>			
<i>Restricted/Reserved:</i>				425 Bond Refundings	-	-	-
426 \$ 25 Taconite	-	-	-	464 Restricted Fund Balance	-	-	-
431 Community Education	2,327,367	2,327,367	-	<i>Unassigned:</i>			
432 ECFE	446,898	446,898	-	463 Unassigned Fund Balance	-	-	-
444 School Readiness	1,438	1,438	-				
447 Adult Basic Education	504,789	504,789	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	22,007	22,005	2				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				