

**Minneapolis Public Schools
Special District No. 1**

Communications Letter

June 30, 2017



**Minneapolis Public Schools
Special District No. 1
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**Report on Matters Identified as a Result of
the Audit of the Financial Statements**

To the School Board and Management
Minneapolis Public Schools Special District No. 1
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of Minneapolis Public Schools Special District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. The material weaknesses identified are stated within this letter.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiencies identified are stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 30, 2017, on such statements.



This communication is intended solely for the information and use of management, the School Board and others within the District, and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Bergan KDV Ltd.

Minneapolis, Minnesota
November 30, 2017

**Minneapolis Public Schools
Special District No. 1
Material Weaknesses**

MATERIAL AUDIT ADJUSTMENTS

During the course of our audit, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

In order to ensure financial statements were free from material misstatement, audit adjustments were required for state aid revenue and property tax revenue. In addition to these general ledger adjustments, reclassification of revenue by finance codes were also proposed.

We recommend the District thoroughly review activity for the District throughout the year and ensure all necessary adjustments to the financial data are recorded.

LACK OF SEGREGATION OF ACCOUNTING DUTIES

The District had a lack of segregation of accounting duties. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation.

Segregation of accounting duties relates to four key areas: initiation/authorization, processing/recording, reconciling/reporting of financial data, and custody of assets. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- Purchasing Process: Purchases that are made with a District-issued purchasing card, or (P-Card), are not always approved prior to payment and are sometimes not approved at all. We also noted some purchases did not have itemized supporting documentation. We recommend either documentation of the approval by the principal or other administrator on the invoice, or that the principal or administrator use a password protected approval within the financial software to approve invoices and P-Card purchases online. We recommend the District only allow purchases when itemized supporting documentation is maintained.
- Accounts Payable Process: The Accounts Payable Supervisor processes certain invoices, prepares the check run, and reconciles accounts payable. We recommend the District review this process and consider where these steps can be segregated.

**Minneapolis Public Schools
Special District No. 1
Material Weaknesses**

LACK OF SEGREGATION OF ACCOUNTING DUTIES (CONTINUED)

- SAP User Rights: A number of employees have excessive access to accounts payable functions, purchasing functions, and the general ledger. Also, there were instances identified where individuals have access to perform many responsibilities within a process (e.g. create a vendor, enter an invoice for payment, and cut a check). There are also some employees who have the ability to make journal entries without review as a result of SAP user rights allocated to them. We recommend that the District review all user roles and the permissions granted to each role for appropriateness, taking into consideration adequate segregation of duties. The District should also validate that adequate compensating controls are implemented to review and detect potential irregular or fraudulent activity performed by users with elevated permissions. Additionally, individuals in a position of authority should have limited transactional ability within the SAP application to further prevent management override of controls.

PREPARATION OF FINANCIAL STATEMENTS AND RELATED NOTE DISCLOSURES

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, on a timely basis. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Minneapolis Public Schools
Special District No. 1
Significant Deficiencies**

BUDGET PROCESS

During our audit we noted concerns with budget activity:

- Significant mid-year budget amendments were required to account for various overages throughout the year. This calls into question the budget process and accuracy of the reports provided to the Board or the adequacy of the means of communication.
- Revenue and Expenditure activity by program in the budget document did not tie to amounts presented in the general ledger for the General Fund and the Community Service Fund.
- Changes between original and final budget amounts in the general ledger were not supported by, or did not tie to, authorization from the board or administration.

PAYROLL PROCESS

Instances were noted where employees remained on the payroll after they had been terminated or took a leave of absence. There were also employees who were paid the wrong full-time employee percentage. Employees are then required to repay the District these overpayments. There were also instances during our testing where we could not verify employment information or verify the correct rate of pay. These deficiencies are result of ineffective communication between sites, the human resources department, and the payroll department. Effective communication is necessary to ensure the payroll department is receiving accurate information timely to make the necessary changes in the payroll system to ensure employees are being paid accurately. Employees involved in the recording and processing of payroll also had system access to change payroll input information. Documentation was not retained to verify that payroll specialists were reviewing and approving payroll edit reports.

**Minneapolis Public Schools
Special District No. 1
Required Communication**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2017. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND THE UNIFORM GUIDANCE

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audited financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Minneapolis Public Schools
Special District No. 1
Required Communication**

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method. Management's estimate of the depreciation is based on management's knowledge and experience about past and current events and assumptions about future events.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

Net Other Post Employment Benefits (OPEB) Obligation – This liability is based on an actuarial study using estimates of future obligations of the District for post employment benefits.

Net Pension Liability, Deferred Outflows of Resources Related to Pension Activity, and Deferred Inflows of Resources Related to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

**Minneapolis Public Schools
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Required Communication**

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified uncorrected misstatements of the financial statements for interest payable, capital assets, and state aids. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The material audit adjustment to adjust state aid revenue and property tax revenue was detected as a result of audit procedures and was corrected by management.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We requested certain representations from management which were provided to us in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Minneapolis Public Schools
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Required Communication**

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this letter. The last section of this report contains a summary of legislative changes affecting school districts from the most recent session. The following provides some state-wide funding and financial trend information.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to ADM. Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

Year	General Education Aid Formula Allowance	
	Amount	Percent Increase
2008	\$ 5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%

* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

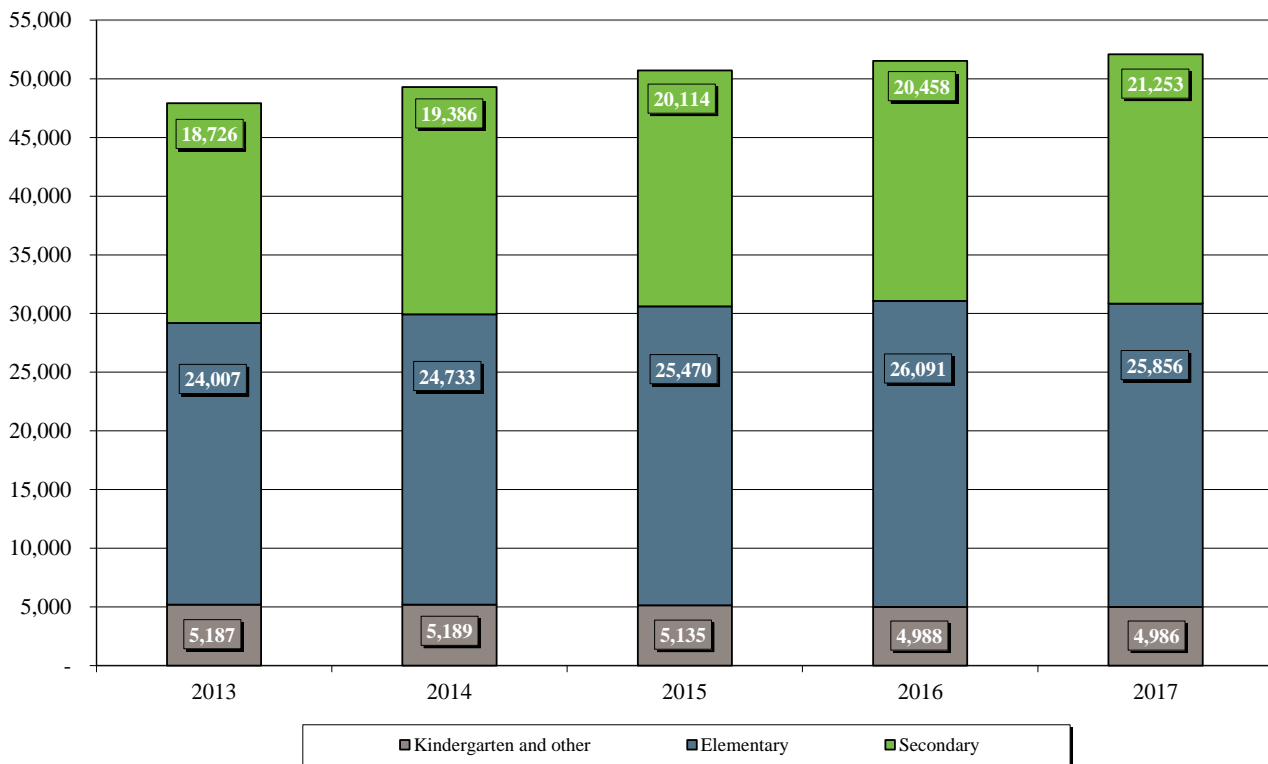
**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS SERVED

Approximately 69% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans. The following summarizes resident ADM of the District over the past five years ended June 30:

Students (Resident ADM)	2013	2014	2015	2016	2017
Kindergarten and other	5,187	5,189	5,135	4,988	4,986
Elementary	24,007	24,733	25,470	26,091	25,856
Secondary	18,726	19,386	20,114	20,458	21,253
Total Students (Resident ADM)	47,920	49,308	50,718	51,537	52,095

Resident ADM



* Estimate as of November 21, 2017

As the chart and graph above indicate, resident ADM has steadily increased from the years ended June 30, 2013 to 2017. Over the five year period, resident ADM has increased by 4,175, or 8.7%. In 2017, total resident ADM increased by 558 from the prior year, an increase of 1.1%.

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table on the following page.

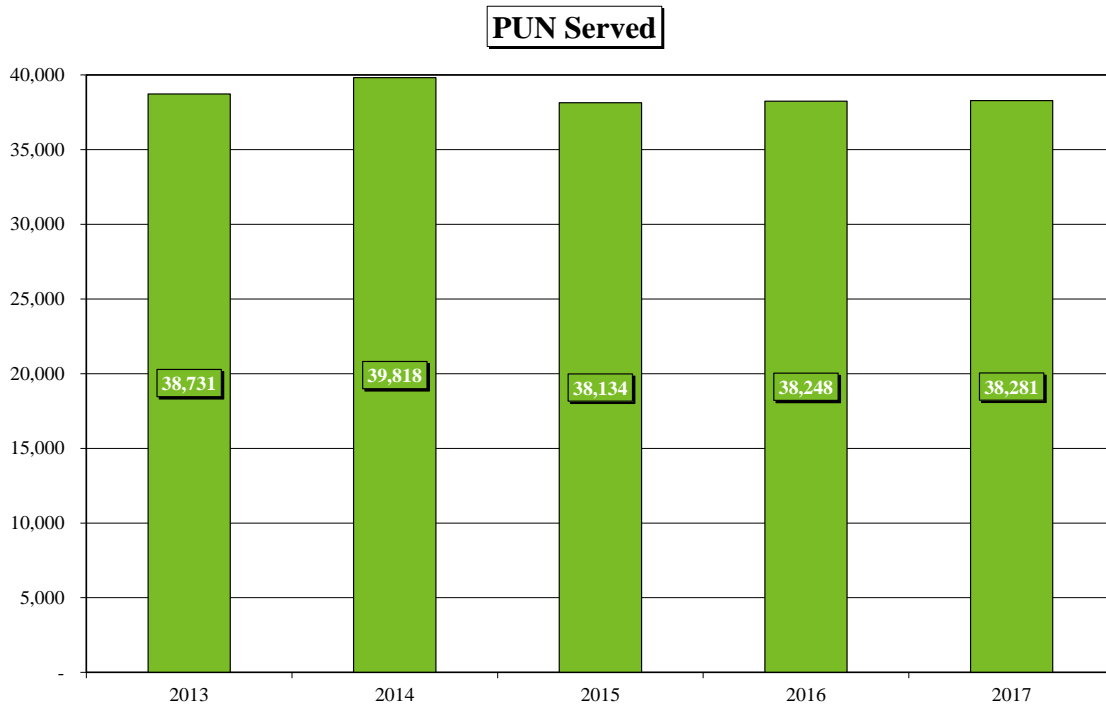
**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND ADJUSTED PUPIL UNITS

	Pre-Kindergarten and Handicapped Kindergarten	Kindergarten	Grades 1-3	Grades 4-6	Secondary
Year 2013-2014	Various	0.612	1.115	1.060	1.300
Year 2015-2017	1.000	1.000	1.000	1.000	1.200

The following chart and graph convert the ADM into weighted average daily membership (WADM) for the same five year period, as noted on the previous page.

Adjusted WADM/PUN	2013	2014	2015	2016	2017
Residents	54,108	55,749	54,740	55,628	56,345
WADM/PUN gain	1,163	1,164	989	1,350	1,090
WADM/PUN loss	(16,539)	(17,095)	(17,595)	(18,730)	(19,154)
Total Adjusted WADM/PUN	38,731	39,818	38,134	38,248	38,281



* Estimate as of November 21, 2017

WADM/PUN loss is the resident students who chose open enrollment and decided to enroll at another district or charter school. WADM gain is the resident students from another school district choosing to enroll with Minneapolis Public Schools.

In 2017, total PUN served increased by 33 from the prior year, an increase of 0.09%. This was a result of an increase in resident PUN of 717, a decrease in PUN gain of 260, and an increase in PUN loss of 424 to other districts.

**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

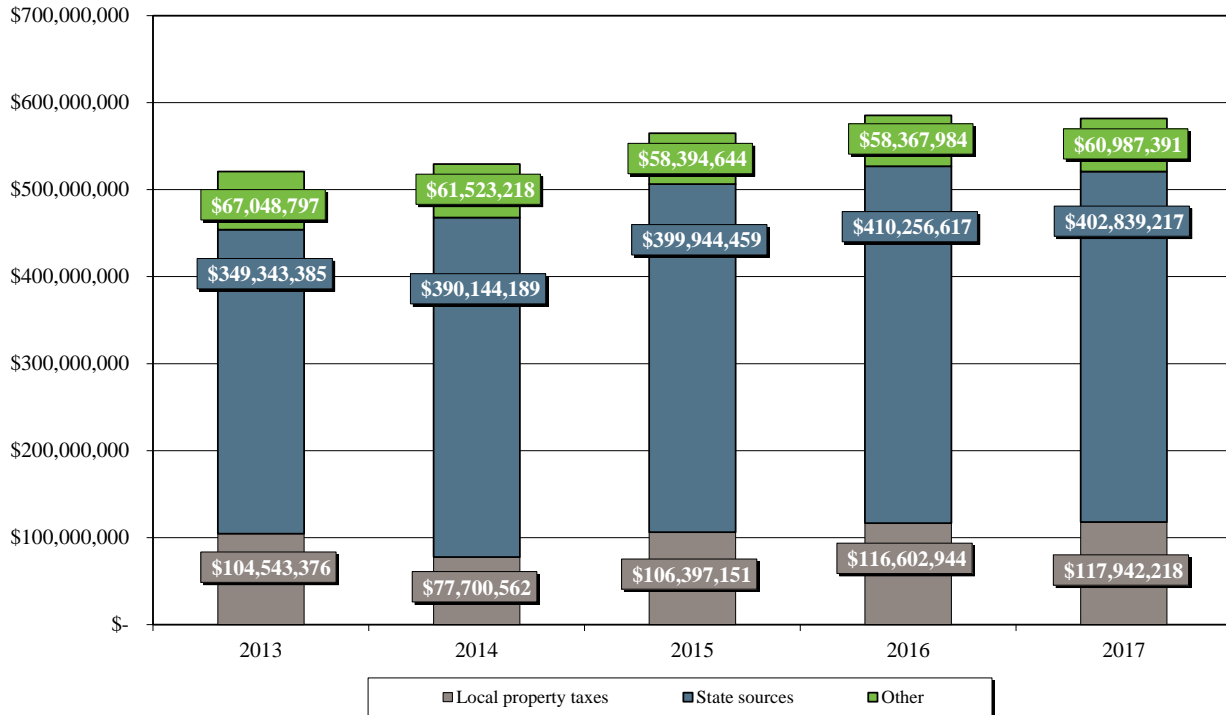
GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

For the Year Ended June 30,	2013	2014	2015	2016	2017
Local property taxes	\$ 104,543,376	\$ 77,700,562	\$ 106,397,151	\$ 116,602,944	\$ 117,942,218
State sources	349,343,385	390,144,189	399,944,459	410,256,617	402,839,217
Other	67,048,797	61,523,218	58,394,644	58,367,984	60,987,391
Total	\$ 520,935,558	\$ 529,367,969	\$ 564,736,254	\$ 585,227,545	\$ 581,768,826

Revenue from State sources was down year over year due mainly to a different treatment of the pension in-kind contribution in 2017. After factoring this transaction out, State revenue would still have been down slightly. Other sources of revenue increased by \$2,619,407 due to increased expenditures in federal grants, specifically Title II and Federal Special Education. Revenue from local property taxes remained relatively consistent with the prior year, increasing \$1,339,274, or 1.1% as a result of an increase in the General Fund's share of the levy. General Fund revenues over the past five years are portrayed in the following graph.

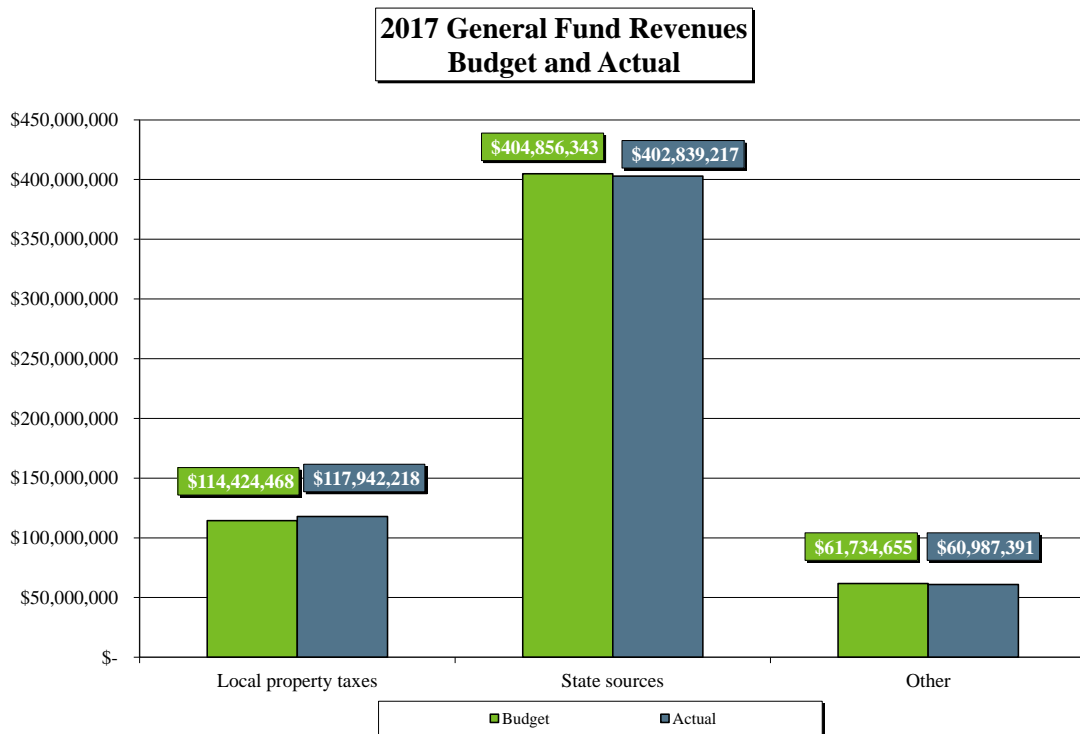
General Fund Sources of Revenue



**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

GENERAL FUND REVENUES - BUDGET AND ACTUAL

The District approved a final amended revenue and other financing sources budget of \$589,255,466. Actual revenues and other financing sources of \$591,508,826 were \$2,253,360, or 0.4%, over the final budget.



Revenues from local property taxes were \$3,517,750 over budget due to the new long-term facilities maintenance levy.

GENERAL FUND EXPENDITURES

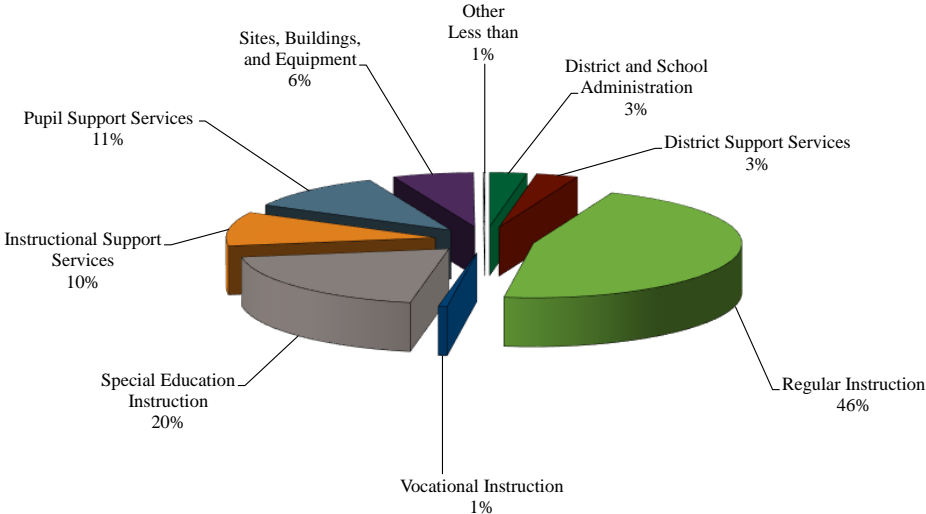
On the following page is the allocation of expenditures by program for the past two years. Overall, expenditures in the General Fund decreased \$454,888, or 0.1%, from 2016 to 2017. District support services decreased by \$3,251,916 due to approximately \$4,000,000 of technology equipment purchased in the prior year. Regular instruction decreased by \$3,006,121 and special education instruction decreased \$2,011,032 as a result of a reduction in the pension in-kind contribution recognized in the General Fund. These decreases were offset by an increase in instructional support services of \$7,027,316 and an increase in sites, buildings, and equipment of \$2,568,906. Instructional support services expenditures increased due to the expansion of Office of Black Male Student Achievement, additional staff hired, and the expansion of Professional Assistance and Review mentors. Sites, buildings, and equipment expenditures increased due to the Edison Water Garden Project with Mississippi Watershed, in addition to other miscellaneous equipment purchases made in 2017.

The three instruction categories, regular, vocational, and special education comprise 67% of the total District expenditures for 2017.

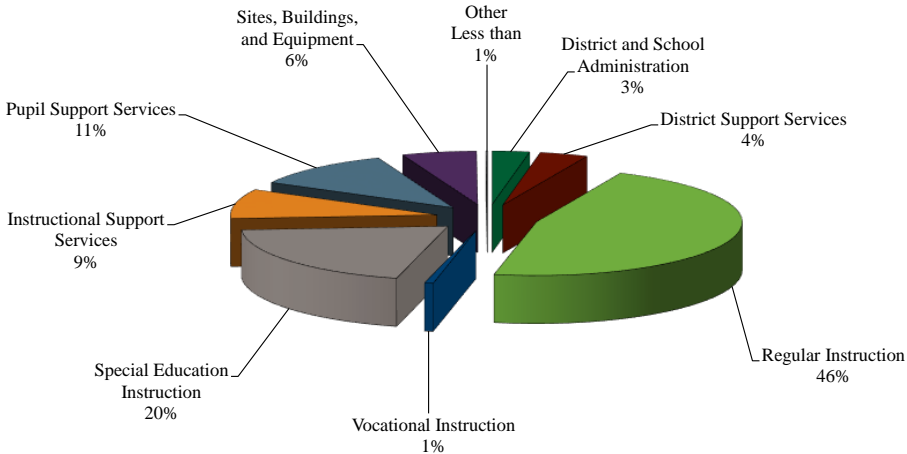
**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

GENERAL FUND EXPENDITURES (CONTINUED)

**2017 General Fund Expenditures
\$605,929,828**



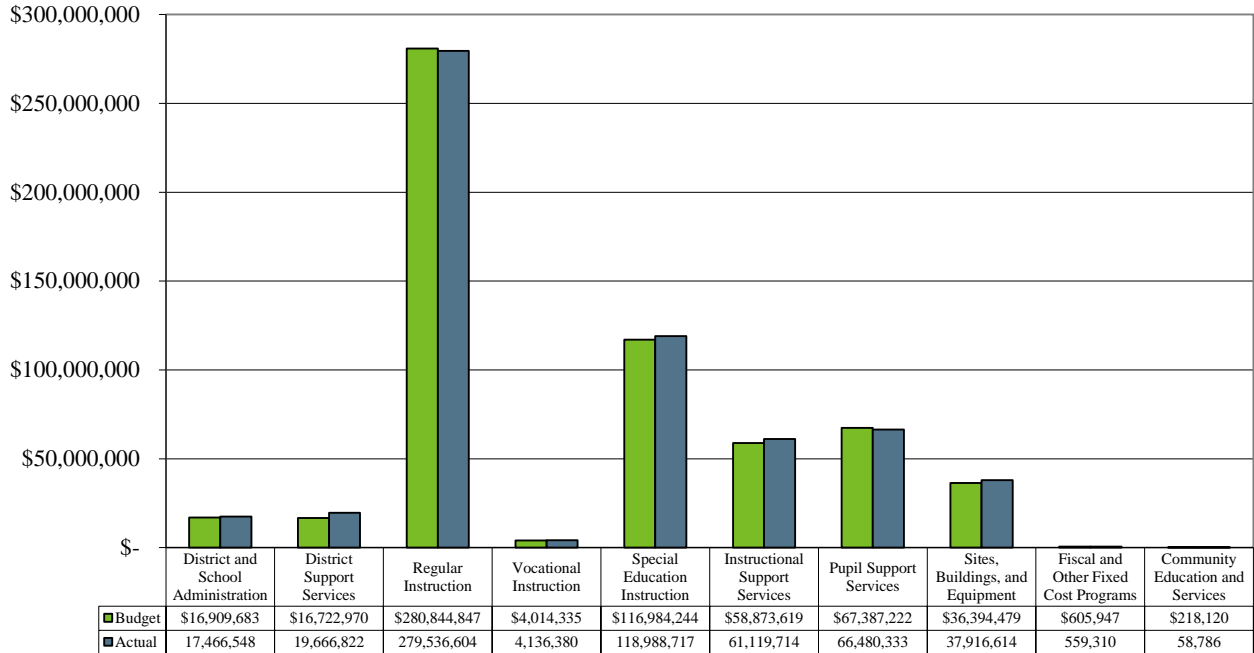
**2016 General Fund Expenditures
\$606,384,716**



**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

GENERAL FUND EXPENDITURES - BUDGET AND ACTUAL

**2017 General Fund Expenditures
Budget and Actual**



Overall, General Fund expenditures of \$605,929,828 were \$6,974,362, or 1.16%, over budget.

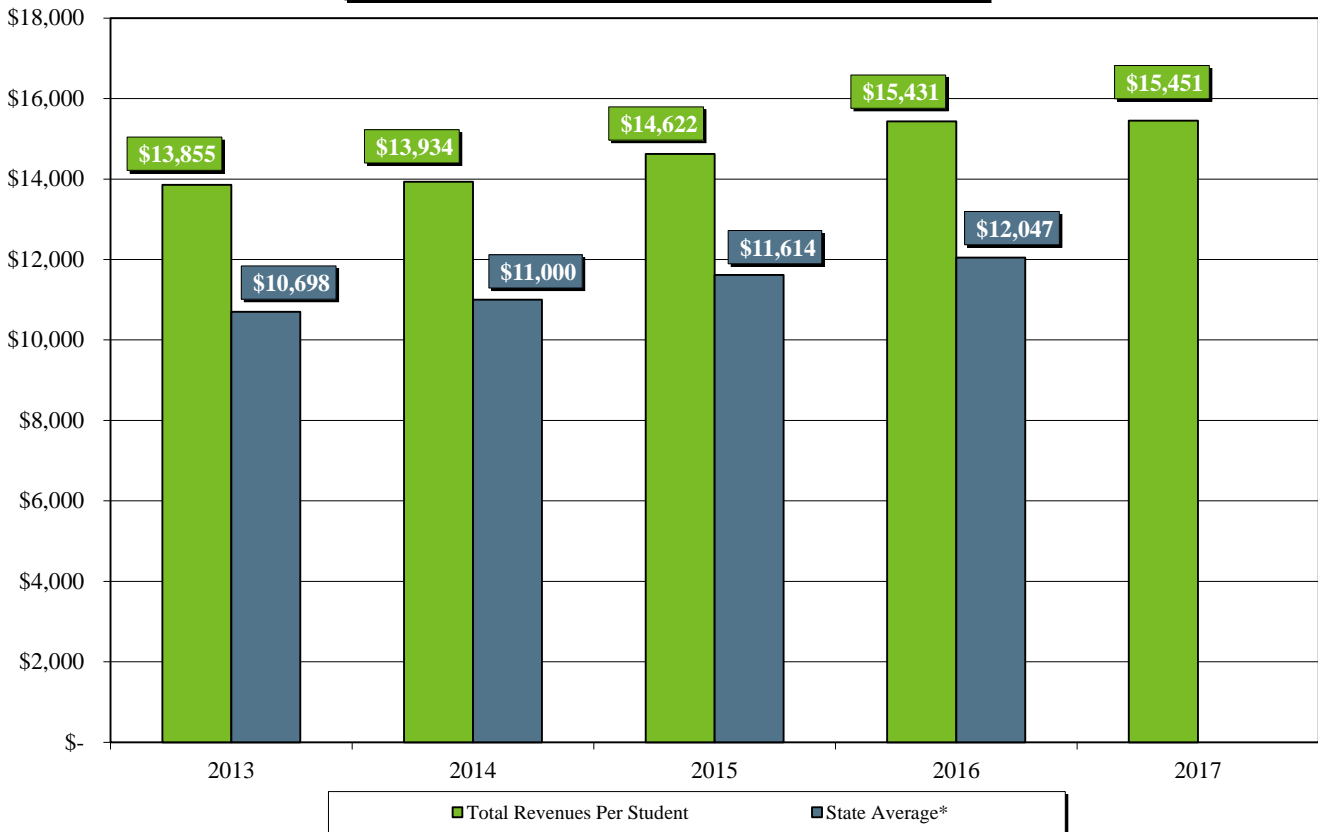
**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

GENERAL FUND REVENUES PER STUDENT

Special District No. 1	2013	2014	2015	2016	2017
General Fund	\$ 13,855	\$ 13,934	\$ 14,622	\$ 15,431	\$ 15,451
Food Service Fund	458	479	509	593	600
Community Service Fund	653	643	691	753	792
Building Construction Fund	47	148	247	48	30
Debt Service Fund	1,868	1,996	1,696	1,892	1,999
Total Revenues Per Student	\$ 16,881	\$ 17,200	\$ 17,765	\$ 18,717	\$ 18,872

State Average*	2013	2014	2015	2016	2017
General Fund	\$ 10,698	\$ 11,000	\$ 11,614	\$ 12,047	N/A
Food Service Fund	493	499	517	543	N/A
Community Service Fund	530	531	525	562	N/A
Building Construction Fund	104	73	94	108	N/A
Debt Service Fund	1,099	1,034	1,002	991	N/A
Total Revenues Per Student	\$ 12,924	\$ 13,137	\$ 13,752	\$ 14,251	N/A

General Fund Revenues Per ADM Served



* Source: *School District Profiles*; year 2017 is not yet available.

** Estimate as of November 21, 2017

**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

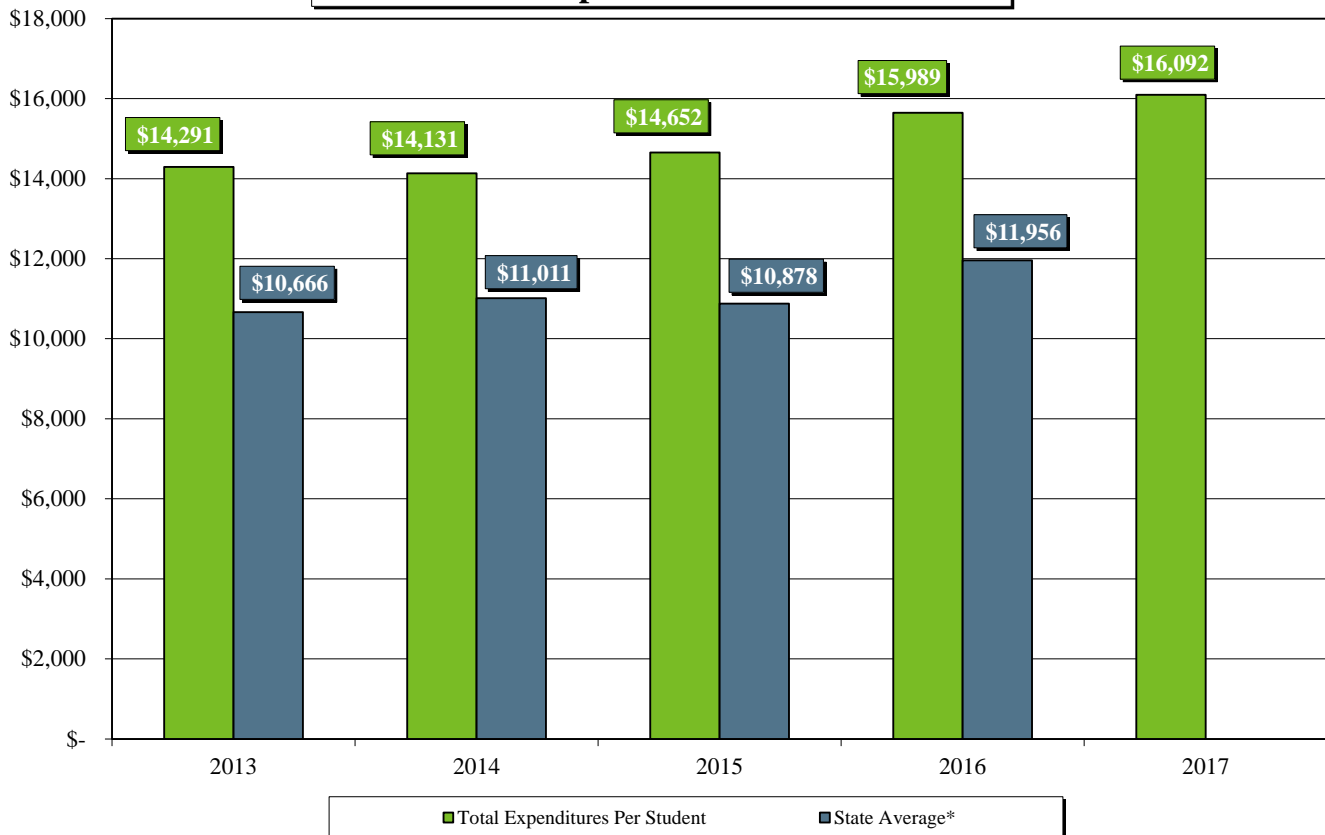
GENERAL FUND EXPENDITURES PER STUDENT

Expenditures per student (ADM served) are summarized as follows:

Special District No. 1	2013	2014	2015	2016	2017
General Fund	\$ 14,291	\$ 14,131	\$ 14,652	\$ 15,648	\$ 16,092
Food Service Fund	523	500	499	581	586
Building Construction Fund	1,426	1,327	2,804	3,567	1,750
Community Service Fund	641	638	635	701	758
Debt Service Fund	1,894	4,145	1,912	2,324	2,065
Total Expenditures Per Student	\$ 18,775	\$ 20,741	\$ 20,502	\$ 22,821	\$ 21,251

State Average*	2013	2014	2015	2016	2017
General Fund	\$ 10,666	\$ 11,011	\$ 10,878	\$ 11,956	N/A
Food Service Fund	497	510	525	539	N/A
Community Service Fund	515	534	521	550	N/A
Building Construction Fund	673	712	949	1,405	N/A
Debt Service Fund	1,173	1,394	1,406	1,433	N/A
Total Expenditures Per Student	\$ 13,524	\$ 14,161	\$ 14,279	\$ 15,883	N/A

General Fund Expenditures Per ADM Served



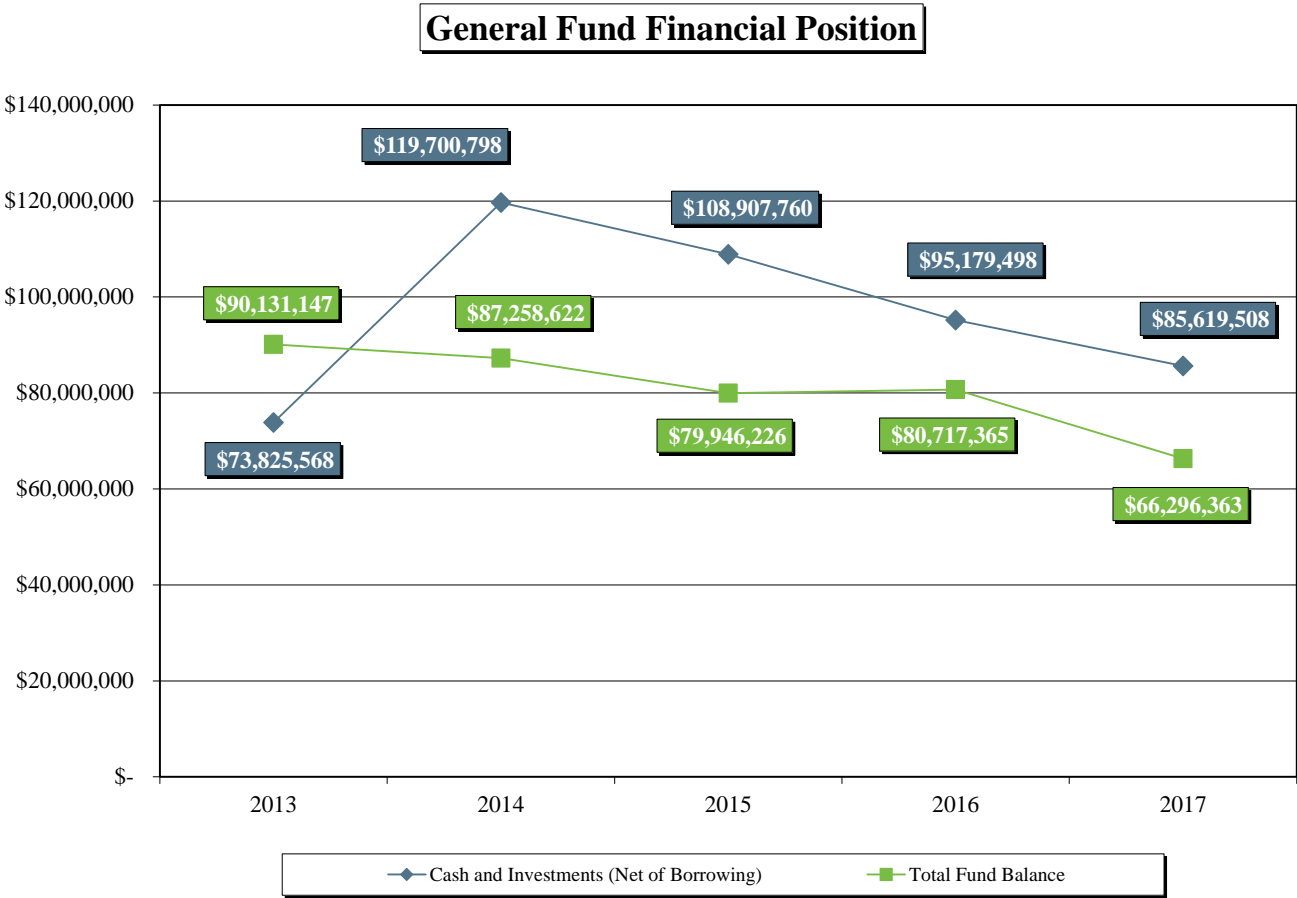
* Source: *School District Profiles*; year 2017 is not yet available.

** Estimate as of November 21, 2017

**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

GENERAL FUND OPERATIONS

As the following graph indicates, cash and investments decreased \$9,559,990 from 2016 to 2017 to \$85,619,508.



**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

GENERAL FUND OPERATIONS (CONTINUED)

The following table presents five years of comparative operating results for the District's General Fund:

For the Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 520,935,558	\$ 529,367,969	\$ 564,736,254	\$ 585,227,545	\$ 581,768,826
Expenditures	(537,344,112)	(536,856,294)	(575,893,150)	(606,384,716)	(605,929,828)
Excess of revenues under expenditures	(16,408,554)	(7,488,325)	(11,156,896)	(21,157,171)	(24,161,002)
Proceeds from sale of equipment	-	10,500	1,500	8,310	-
Bond proceeds	3,765,625	4,605,300	3,843,000	5,920,000	6,440,000
Bond premium	182,567	-	-	-	-
Transfers in (out)	(26,104,494)	-	-	16,000,000	3,300,000
Fund balance, July 1	128,696,003	90,131,147	87,258,622	79,946,226	80,717,365
Fund Balance, June 30	\$ 90,131,147	\$ 87,258,622	\$ 79,946,226	\$ 80,717,365	\$ 66,296,363

Components of Fund Balance					
For the Year Ended June 30,	2013	2014	2015	2016	2017
Nonspendable	\$ 752,912	\$ 896,518	\$ 872,933	\$ 853,532	\$ 128,675
Restricted for					
Area learning center	2,865,828	1,194,107	-	-	-
Contracted alternative programs	-	-	-	-	19,894
Gifted and talented	448,809	389,244	153,764	293,573	-
Health and safety	763,517	596,702	19,683	-	(161,640)
Long-term facilities maintenance	-	-	-	-	(194,164)
Other	75,483	75,483	75,483	-	-
Capital projects	-	-	-	-	3,300,000
Assigned	35,221,882	39,192,676	29,387,954	25,350,565	21,455,251
Unassigned	50,002,716	44,913,892	49,436,409	54,219,695	41,748,347
Fund Balance, June 30	\$ 90,131,147	\$ 87,258,622	\$ 79,946,226	\$ 80,717,365	\$ 66,296,363

The chart above summarizes General Fund activity and financial position for each of the last five years. Total General Fund balance represents 10.9% of annual expenditures (based on 2017 spending levels) while the unassigned fund balance represents 6.9% of expenditures. The District's fund balance policy calls for a minimum unassigned balance of 8% of the annual budget.

**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

FOOD SERVICE FUND

The following table presents five years of comparative operating results for the District's Food Service Fund.

For the Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 17,209,875	\$ 18,215,170	\$ 19,607,719	\$ 22,486,250	\$ 22,589,754
Expenditures	(19,650,159)	(18,977,383)	(19,224,956)	(22,027,820)	(22,077,485)
Excess of revenues over (under) expenditures	(2,440,284)	(762,213)	382,763	458,430	512,269
Proceeds from sale of equipment	206,692	-	10,797	24,636	-
Bond proceeds	-	-	-	-	245,000
Fund balance, July 1	4,234,725	2,001,133	1,238,920	1,632,480	2,115,546
Fund Balance, June 30	\$ 2,001,133	\$ 1,238,920	\$ 1,632,480	\$ 2,115,546	\$ 2,872,815
Nonspendable	\$ 1,144,793	\$ 764,274	\$ 780,490	\$ 484,372	\$ 872,545
Restricted for other purposes	856,340	474,646	851,990	1,631,174	2,000,270
Total Fund Balance, June 30	\$ 2,001,133	\$ 1,238,920	\$ 1,632,480	\$ 2,115,546	\$ 2,872,815

COMMUNITY SERVICE FUND

The following table presents five years of comparative operating results for the District's Community Service Fund.

For the Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 24,566,271	\$ 24,428,568	\$ 26,664,323	\$ 28,570,581	\$ 29,825,786
Expenditures	(24,117,842)	(24,237,059)	(24,540,783)	(26,563,620)	(28,554,216)
Excess of revenues over expenditures	448,429	191,509	2,123,540	2,006,961	1,271,570
Fund balance, July 1	2,662,561	3,110,990	3,302,499	5,426,039	7,433,000
Fund Balance, June 30	\$ 3,110,990	\$ 3,302,499	\$ 5,426,039	\$ 7,433,000	\$ 8,704,570
Restricted for					
School readiness	\$ 168,870	\$ 1,438	\$ 105,628	\$ 269,807	\$ 614,311
Adult basic education	426,089	504,789	793,071	1,297,774	1,278,467
Community education programs	2,150,381	2,327,367	3,484,711	4,391,533	5,549,459
ECFE	279,662	446,898	915,835	1,202,910	1,051,105
Other programs	85,988	22,007	126,794	270,976	211,228
Total Fund Balance, June 30	\$ 3,110,990	\$ 3,302,499	\$ 5,426,039	\$ 7,433,000	\$ 8,704,570

**Minneapolis Public Schools
Special District No. 1
Legislative Summary**

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

STATE AID APPROPRIATIONS

The formula allowance for 2017 General Education Aid was increased \$119 (2%) to \$6,067. For 2018, the formula allowance is set at \$6,188, which is also an increase of 2%.

COMPENSATORY REVENUE

The compensatory pilot grants have been added permanently to regular compensatory revenue at the 2017 level. A percentage of the total compensatory revenue must be used for extended time activities. These percentages are 1.7% for 2018, 3.5% for 2019, and for 2020 and later it will be 3.5% plus the percentage change in the formula from 2019.

STUDENT ACHIEVEMENT LEVY

The Student Achievement Levy is reduced from \$20 million to \$10 million for 2018 and eliminated for 2019.

LEAD IN SCHOOL DRINKING WATER

By July 1, 2018, districts will be required to begin testing school water for lead. Testing must be completed for all schools within five years. School districts and charter schools must adopt a plan to test school water for lead at least every five years. Lead test results must be made available to the public and parents must be notified when this information is available.

The testing may be included in the ten-year facilities plans and districts can use long-term facilities maintenance revenue for lead testing and remediation costs.

PAYMENTS TO NONOPERATING FUNDS

The payment schedule for nonoperating fund aids is moving to six monthly installments from July through December rather than 12 monthly installments.

SCHOOL BUILDING BOND AGRICULTURAL CREDIT

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. Total amounts available will be \$34.8 million in 2019, \$45.2 million in 2020, and \$52.5 million in 2021.

**Minneapolis Public Schools
Special District No. 1
Legislative Summary**

LONG-TERM FACILITIES MAINTENANCE REVENUE

Beginning in 2017, deferred maintenance, health and safety and alternative facilities revenues were rolled into a new long-term facilities maintenance revenue program. This new revenue equals the sum of the product of:

- 1) \$193/APU for 2017, \$292 for 2018, and \$380 for 2019 and later, and
- 2) The lesser of 1 or the ratio of the district's average building age to 35 years
- 3) The approved cost of indoor air quality, fire alarm and suppression and asbestos abatement projects with a cost per site of \$100,000 or more

The 25 large districts currently eligible for alternative facilities revenue continue to be eligible based on approved project costs without a state-imposed per pupil limit.

Districts may choose to issue bonds for the program, levy on a pay as you go basis, or a combination of the two.

Districts are guaranteed to receive at least as much revenue and state aid as they would have received under existing law.

EQUITY REVENUE

For 2017 through 2019, nonmetro school district are eligible for a 16% increase in the sliding portion of their equity revenue. The seven county metro area schools continue to receive a 25% increase over their initial calculation for revenue.

Beginning in 2020, all districts will receive the same 25% increase over the initial calculation for revenue.

For 2017 all revenue increases will be paid out as additional state aid.

SPECIAL EDUCATION

An adjustment to the prior year data and the fiscal year 2016 old formula revenue base used to calculate the hold harmless and group cap will be necessary for closed or restructured programs.

Although there was a change in Federal law removing student awaiting foster care from the definition of "homeless", these students will still be included in the special education funding calculations.

NONPUBLIC PUPIL AID

The definition of "textbook" has been modified to include the on-line books with annual subscription costs. The definition of "software or other educational technology" has been modified to include registration fees for online advanced placement courses.

**Minneapolis Public Schools
Special District No. 1
Legislative Summary**

VOLUNTARY PREKINDERGARTEN/SCHOOL READINESS PLUS

A new school readiness plus program has been created for 2018 and 2019 only. This program changes the voluntary preK cap from a limit on the total state aid entitlement to a limit on the number of participants. For 2018 this cap will be 6,160 for voluntary preK and school readiness plus and will be 7,160 for 2019. The cap of 6,160 for 2018 covers the 3,160 2017 voluntary preK participants that have renewed their applications for 2018 plus 3,000 new participants. After 2019 the school readiness plus will be eliminated and the cap for voluntary preK will be 3,160 participants.

HOME VISITING REVENUE

Effective for 2018, on the Pay 2017 levy, the formula for home visiting revenue is increased from \$1.60 to \$3.00 times the population under age 5 residing in the District on September 1 of the last school year.

PUPIL TRANSPORTATION FUNDING

Beginning in 2018, sparsity revenue will increase by 18.2% of the difference between the lesser of the district's actual regular and excess transportation costs, including bus depreciation for the previous year or 105% of the district's cost for the second previous year, and the sum of 4.66% of the district's basic revenue, transportation sparsity revenue and charter school transportation adjustment from the previous year.

REVIEW AND COMMENT

The commissioner will now include comments from district residents in the review and comment on capital projects.

School boards must now hold a public meeting to review the commissioner's review and comment on a proposal before the bond election.

NEW FINANCE CODES

Starting in 2018, there are multiple new finance codes for tracking revenue. Finance code 175 will be used to track revenue related to Title VII – Impact Aid. This finance code will close to balance sheet code 475, Restricted for Title VII Impact Aid. Finance code 185 will be used to track revenue from private sources. This finance code will close to balance sheet 485, restricted for private sources. Finance code 176 will be used to track revenue from payments in lieu of taxes (PILT). This finance code will close to balance sheet 476, restricted for payments in lieu of taxes.

SPECIAL ELECTIONS

District's no longer have the ability to choose any date for special elections. Special elections must now be held on the second Tuesday in February, April, May, August or election day.

**Minneapolis Public Schools
Special District No. 1
Emerging Issues**

Executive Summary

The following is an executive summary of financial related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – GASB has issued GASB Statement No. 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and their applicability to your District.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 – ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

**Minneapolis Public Schools
Special District No. 1
Emerging Issues**

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 – ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement No. 75 carries forward from Statement No. 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Information provided above was obtained from www.gasb.org.