

**ANNUAL
FINANCIAL REPORT OF
MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MINNEAPOLIS, MINNESOTA
YEAR ENDED JUNE 30, 2013**

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHOOL BOARD AND ADMINISTRATION
YEAR ENDED JUNE 30, 2013**

SCHOOL BOARD

NAME	TERM ON BOARD EXPIRES	BOARD POSITION
Alberto Monserrate	2015	Chair
Jenny Arneson	2015	Vice Chair
Richard Mammem	2015	Clerk
Rebecca Gagnon	2015	Treasurer
Carla Bates	2017	Director
Tracine Asberry	2017	Director
Kim Ellison	2017	Director
Josh Reimnitz	2017	Director

ADMINISTRATION

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

School Board
Special School District No. 1
Minneapolis Public Schools
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 Special School District No. 1, Minneapolis, Minnesota as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Special School District No.1 as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparisons for the General Fund and the Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Summarized Information

We have previously audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Special School District No.1 as of and for the year ended June 30, 2012, and we expressed unmodified opinions on those audited financial statements in our report dated December 19, 2012. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for postemployment benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Special School District No.1's basic financial statements. The Uniform Financial Accounting and Reporting Standards (UFARS) compliance table, as required by Minnesota Department of Education is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The table 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

School Board
Special School District No. 1
Minneapolis Public Schools

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013, on our consideration of the Special School District No.1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Special School District No.1's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 19, 2013

REQUIRED SUPPLEMENTARY INFORMATION

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Special School District No. 1's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follows this section. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year (2012-2013) and the prior year (2011-2012) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

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

- Total combined fund balance of all the District's governmental funds decreased \$12.4 million, or 6.5% from the prior year. This net decrease was due primarily to expenditures exceeding revenues for the year by \$71 million, offset by bond proceeds.
- Total governmental fund revenues were \$634.7 million, up \$19.9 million or a 3.2% increase over the prior year. While the most significant increase of \$9.4 million or 2.6% over last year came from State sources, revenue from property taxes also increased approximately \$7.3 million while Federal sources increased by \$5.7 million. Other revenues, such as donations and fees decreased by \$2.3 million and investment earnings slightly decreased as well.
- Total governmental fund expenditures were \$706 million, up \$29.1 million, or 4.3% from the prior year. Capital outlay increased by 6.5% or \$2.9 million. Expenditures also increased for Administration (\$.7 million or 6.0%), District Support Services (\$2.3 million or 12.5%), Regular Instruction (\$13.3 million or 5.7%), Special Education Instruction (\$2.1 million or 2.0%), Instructional Support Services (\$1.9 million or 5.0%), Pupil Support Services (\$7.7 million or 16.7%), and Food Service (\$3.8 million or 26.5%) compared to last year. Expenditures decreased for Vocational Education Instruction (\$.3 million or 7.9%), Sites and Buildings (\$1.5 million or 2.7%), Community Service (\$.5 or 2.1%), and Debt Service (\$3.4 million or 4.6%) compared to last year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

- *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.*

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 SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was \$254.6 million on June 30, 2013. This was a change of 5.4% from the prior year (see Table A-1).

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

	Primary Government		Percentage Change
	Governmental Activities		
	2013	2012	
Current and Other Assets	\$ 430,789,286	\$ 440,153,584	(2.13)%
Capital and Non-Current Assets	491,688,969	484,121,025	1.56
Total Assets	<u>922,478,255</u>	<u>924,274,609</u>	(0.19)
Current Liabilities	291,792,270	255,754,179	14.09
Long-Term Liabilities	376,048,602	399,344,184	(5.83)
Total Liabilities	<u>667,840,872</u>	<u>655,098,363</u>	1.95
Net Position:			
Net Investment in Capital Assets	101,257,946	82,562,950	22.64
Restricted	48,399,483	37,273,168	29.85
Unrestricted	104,979,954	149,340,128	(29.70)
Total Net Position	<u>\$ 254,637,383</u>	<u>\$ 269,176,246</u>	(5.40)

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 decreased by approximately \$14.5 million, which reflects the current year operating results. As presented in the table above, net investment in capital assets experienced an increase \$18.7 million over the prior year, while restricted net position increased by \$11.1 million and unrestricted net position decreased by approximately \$44.3 million.

At the close of fiscal year 2012-13, the District continued to hold 4 vacant school buildings at an estimated value of \$4,397,168. One of the buildings was re-opened in July 2013.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Changes in Net Position

The District's *government-wide* total revenues were approximately \$634 million for the year ended June 30, 2013. Property taxes and unrestricted state aid accounted for 73.3% of total revenue for the year. An additional 1.4% came from other general revenues, and the remaining 25.3% from program revenues (Table A-2).

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

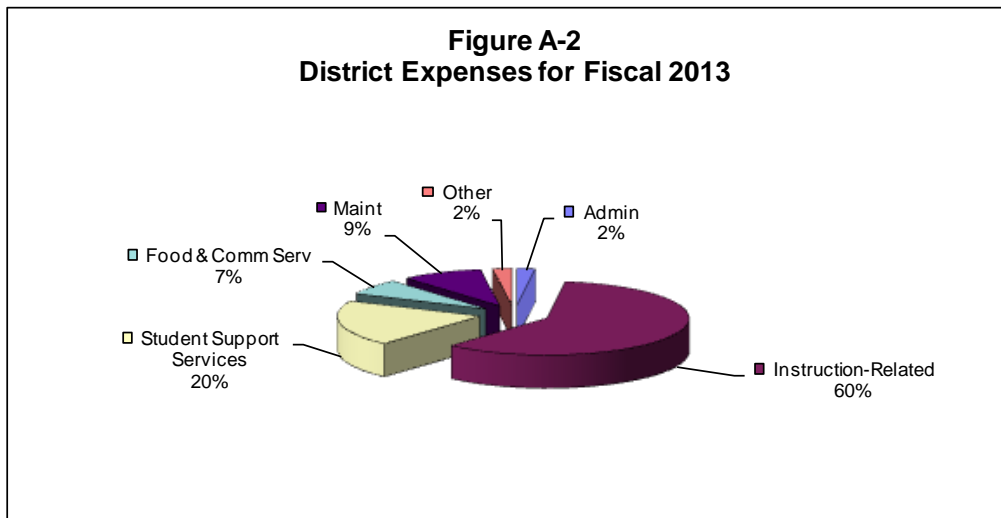
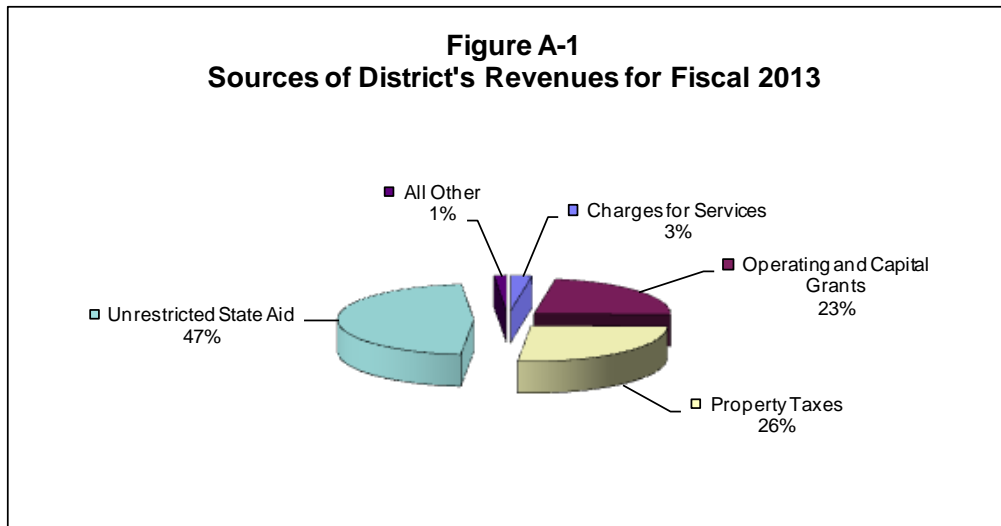
	Primary Government		Total % Change
	Governmental Activities for the		
	Fiscal Year Ended June 30,		
	2013	2012	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 15,851,167	\$ 14,382,411	10.21 %
Operating Grants and Contributions	133,191,221	128,537,733	3.62
Capital Grants and Contributions	11,000,000	11,000,000	-
<u>General Revenues</u>			
Property Taxes	166,405,786	159,681,292	4.21
Unrestricted State Aid	298,038,183	288,212,757	3.41
Investment Earnings	102,088	984,641	(89.63)
Other	9,080,578	14,260,690	(36.32)
Total Revenues	633,669,023	617,059,524	2.69
Expenses			
Administration	13,576,698	12,669,633	7.16
District Support Services	33,909,547	28,282,088	19.90
Regular Instruction	271,063,329	258,590,882	4.82
Vocational Education Instruction	4,273,982	4,610,954	(7.31)
Special Education Instruction	110,670,327	107,854,194	2.61
Instructional Support Services	41,485,771	39,305,297	5.55
Pupil Support Services	54,979,766	47,478,325	15.80
Sites and Buildings	59,370,674	52,957,552	12.11
Fiscal and Other Fixed Cost Programs	539,461	526,232	2.51
Food Service	20,180,224	15,137,368	33.31
Community Service	24,474,808	25,052,180	(2.30)
Interest and Fiscal Charges on			
Long-Term Liabilities	13,683,301	16,671,147	(17.92)
Total Expenses	648,207,886	609,135,852	6.41
Increase (Decrease) in Net Position			
	(14,538,863)	7,923,672	
Beginning Net Position	269,176,246	261,252,574	
Ending Net Position	\$ 254,637,383	\$ 269,176,246	

Total cost of all programs and services was \$648.2 million in fiscal 2013. District expenses were primarily related to educating and caring for students (79.8%). The District's Community and Nutritional Service programs accounted for 6.9% of expenses while facility maintenance totaled 9.1% and fiscal/other fixed cost expenses totaled 2.2%. District and school administration accounted for 2.0% of total expenses during fiscal 2013 (see Figure A-2 on next page).

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

The cost of all *governmental* activities this year was \$648.2 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, \$144.2 million).
- Most of the District's costs were paid for with local property taxes of \$166.4 million, unrestricted state aid of \$298.0 million, investment earnings of \$.1 million, and other general revenues of \$9.0 million.



**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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, 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.

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2013	2012		2013	2012	
Administration	\$ 13,576,698	\$ 12,669,633	7.16 %	\$ 13,547,711	\$ 12,664,133	6.98 %
District Support Services	33,909,547	28,282,088	19.90	33,535,081	28,023,205	19.67
Regular Instruction	271,063,329	258,590,882	4.82	228,759,584	222,029,506	3.03
Vocational Education Instruction	4,273,982	4,610,954	(7.31)	3,707,150	3,973,776	(6.71)
Special Education Instruction	110,670,327	107,854,194	2.61	47,528,752	45,528,542	4.39
Instructional Support Services	41,485,771	39,305,297	5.55	40,514,655	38,470,576	5.31
Pupil Support Services	54,979,766	47,478,325	15.80	52,316,108	42,054,137	24.40
Sites and Buildings	59,370,674	52,957,552	12.11	56,720,058	49,974,550	13.50
Fiscal and Other Fixed Cost Programs	539,461	526,232	2.51	539,461	526,232	2.51
Food Service	20,180,224	15,137,368	33.31	3,006,792	(529,318)	(668.05)
Community Service	24,474,808	25,052,180	(2.30)	5,306,847	6,829,223	(22.29)
Interest and Fiscal Charges on Long-Term Liabilities	13,683,301	16,671,147	(17.92)	2,683,301	5,671,147	(52.69)
Total	<u>\$ 648,207,886</u>	<u>\$ 609,135,852</u>	6.41	<u>\$ 488,165,498</u>	<u>\$ 455,215,708</u>	7.24

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 \$178.6 million, or a \$12.4 million decrease over last year.

The District's governmental funds reported total expenditures of \$706 million and total revenues of \$635 million. Based on these results, fund balance would have decreased by \$71 million. The District also reported an increase in fund balance of \$58.8 million as a result of new bond issues and real estate sales during the year, including bond premiums of \$4.3 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 \$12.4 million from the prior year.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

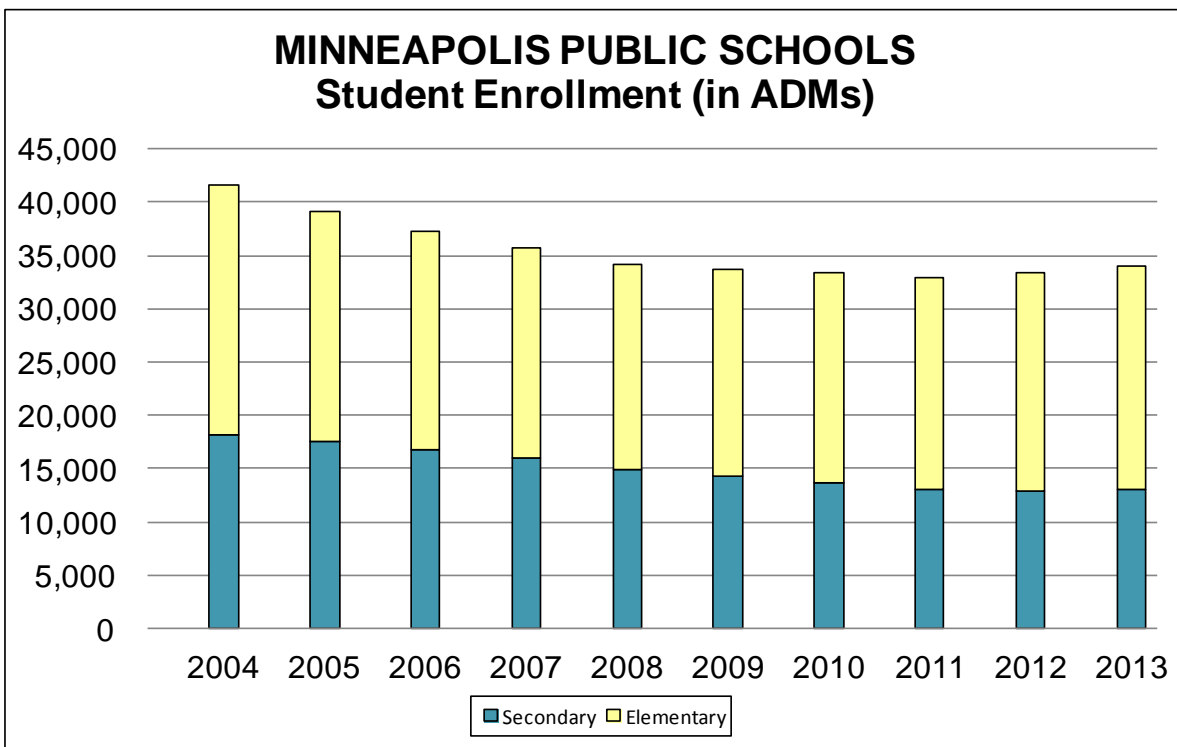
ENROLLMENT

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

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Reg K, Pre-K & KH	4,125	3,679	3,720	3,470	3,409	3,469	3,708	3,656	3,728	3,789
Elementary	19,260	17,962	16,787	16,221	15,832	15,939	15,982	16,236	16,725	17,218
Secondary	18,204	17,475	16,754	16,013	14,896	14,256	13,671	13,087	12,878	12,985
Total Students for Aid	41,589	39,116	37,261	35,704	34,138	33,663	33,361	32,978	33,331	33,993
Percent Change	-17.17%	-5.95%	-4.74%	-4.18%	-4.39%	-1.39%	-0.90%	-1.15%	1.07%	1.99%

**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 enrollment trend increases.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

GENERAL FUND

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

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2013	June 30, 2012	Increase (Decrease)	Percent
Local Sources:				
Property Taxes	\$ 104,543,376	\$ 91,907,674	\$ 12,635,702	13.75 %
Earnings on Investments	55,018	161,266	(106,248)	(65.88)
Other	16,452,861	19,158,412	(2,705,551)	(14.12)
State Sources	349,343,385	339,482,313	9,861,072	2.90
Federal Sources	50,540,918	45,871,098	4,669,820	10.18
Total General Fund Revenue	<u>\$ 520,935,558</u>	<u>\$ 496,580,763</u>	<u>\$ 24,354,795</u>	4.90

General Fund revenue increased by \$24.4 million or 4.9%, from the previous year.

Revenue increased slightly in fiscal year 2013 due to an increase in students which increased the District's general education aid. Property taxes also increased due to the property tax shift, adjustments, and an increase of \$8 million general fund levy.

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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2013	June 30, 2012		
Salaries	\$ 326,621,714	\$ 308,502,551	\$ 18,119,163	5.87 %
Employee Benefits	109,112,572	100,760,403	8,352,169	8.29
Purchased Services	66,810,056	66,405,402	404,654	0.61
Supplies and Materials	13,658,081	11,907,394	1,750,687	14.70
Capital Expenditures	16,866,445	12,321,841	4,544,604	36.88
Other Expenditures	4,275,244	2,465,702	1,809,542	73.39
Total Expenditures	<u>\$ 537,344,112</u>	<u>\$ 502,363,293</u>	<u>\$ 34,980,819</u>	6.96

Total General Fund expenditures increased \$35.0 million or 6.96% from the previous year.

General Fund salaries and benefits increased \$26.5 million combined for the year.

DEBT SERVICE FUND

The Debt Service Fund had excess expenditures over revenues of approximately \$961,000. The District issued \$38.5 million in general obligation refunding bonds in December 2012 and made a payment to the refunded bond escrow agent of \$21.5 million at a premium of \$2.4 million.

OTHER MAJOR FUNDS

Expenditures exceeded revenues by about \$2.4 million in the Food Service Fund and resulted in a decrease to fund balance bringing the total fund balance to \$2.0 million. In the Community Service Fund, revenues exceeded expenditures by about \$0.4 million, resulting in an ending fund balance of about \$3.1 million. Bond proceeds of \$36.0 million, transfer in from the general fund of \$26.1 million, along with excess expenditures over revenues of \$51.9 million provided the Capital Projects – Building Construction an increase in fund balance of \$12.0 million, increasing fund balance to \$38.7 million.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013, the District had invested approximately \$487 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 \$27.5 million. Included in the District's capital assets are four vacant school buildings. The value of these assets, net of depreciation, totals approximately \$4.4 million (see Note 4).

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

	2013	2012	Percentage Change
Land	\$ 35,004,846	\$ 35,004,846	-
Construction in Progress	24,705,742	47,312,846	(47.78)
Buildings and Improvements	889,457,786	834,312,366	6.61
Equipment	64,420,178	68,855,537	(6.44)
Less: Accumulated Depreciation	<u>(526,292,368)</u>	<u>(505,091,675)</u>	4.20
Total	<u><u>\$ 487,296,184</u></u>	<u><u>\$ 480,393,920</u></u>	1.44

Long-Term Liabilities

At year-end, the District had \$425.5 million in general obligation bonds and certificates of participation payable outstanding, net of related premiums and discounts – reflecting a .4% increase from last year – as shown in Note 6 D to financial statements. The District also had an estimated \$38.7 million in post-employment severance and health benefits payable, as well as self insurance reserves, at June 30, 2013.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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.

While the District's final budget for the General Fund, excluding grant activity, anticipated that there would be a deficit of revenues under expenditures of \$18.9 million, there was a negative decrease of \$38.6 million. Therefore, total fund balance declined by \$38.6 million, resulting in a total fund balance of \$90.1 million at June 30, 2013.

Actual revenues in the General Fund were \$2.2 million higher than budgeted. The actual expenditures were \$.2 million under budget. Most of the decrease in fund balance was a transfer to the capital projects – building fund. The method of budgeting for grants created the majority of the variance in both revenues and expenditures; once a grant award is received, a budget is created in a specific cost center to offset the original budget, which was created so that expenditures can be tracked.

FACTORS BEARING ON THE DISTRICT'S FUTURE

For the past five years, the District has faced continued budget reductions as a result of declining enrollment and growing operating costs. Since fiscal year 2012 the District has experienced a slight increase in enrollment. Recently the Board of Education approved a comprehensive five year enrollment plan based on a projected enrollment increase of approximately 4,000 additional students to the District. The cost of the enrollment plan is projected to cost the District \$565 million over that time period including capital and program costs.

With the exception of the voter-approved excess levy referendum, the District is dependent on the state of Minnesota for its revenue authority. In fiscal 2013, 67.1% of general or non-program revenues came from state aids compared to 68.3% in fiscal 2012. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

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 2013 to \$5,224 per pupil. A weakened economy and growing demand on limited resources continue to present challenges in funding education for the Minnesota schools.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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>

BASIC FINANCIAL STATEMENTS

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	Governmental Activities	
	2013	2012
ASSETS		
Cash and Investments	\$ 210,728,860	\$ 158,957,274
Cash and Investments Held by Trustee	39,480,506	26,189,419
Receivables:		
Property Taxes	88,324,139	86,889,497
Other Governments	86,821,688	162,909,767
Other	3,403,119	3,567,956
Prepaid Items	200,131	199,904
Inventories	1,830,843	1,439,767
Net Other Postemployment Benefit Asset	537,567	-
Bond Issuance Costs, Net	3,855,218	3,727,105
Capital Assets:		
Land and Construction in Progress	59,710,588	82,317,692
Other Capital Assets, Net of Depreciation	427,585,596	398,076,228
Total Assets	922,478,255	924,274,609
LIABILITIES		
Salaries and Compensated Absences Payable	46,718,665	41,031,372
Accounts and Contracts Payable	33,390,199	22,196,471
Accrued Interest	5,830,019	6,137,361
Due to Other Governmental Units	196,060	10,356
Property Tax Shift Adjustment	-	545,351
Unearned Revenue:		
Property Taxes	116,705,586	111,402,636
Local Sources	754,469	1,854,419
Long-Term Liabilities:		
Portion Due Within One Year	88,197,272	72,576,213
Portion Due in More Than One Year	376,048,602	399,344,184
Total Liabilities	667,840,872	655,098,363
NET POSITION		
Net Investment in Capital Assets	101,257,946	82,562,950
Restricted for:		
General Fund State-Mandated Reserves	4,153,637	670,536
Food Service	2,001,133	4,234,725
Community Service	3,110,990	2,662,561
Debt Service	388,833	2,918,102
Capital Projects - Building Construction	38,744,890	26,787,244
Unrestricted	104,979,954	149,340,128
Total Net Position	\$ 254,637,383	\$ 269,176,246

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

Functions	2013				2012	2012
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
Governmental Activities						
Primary Government:						
Administration	\$ 13,576,698	\$ -	\$ 28,987	\$ -	\$ (13,547,711)	\$ (12,664,133)
District Support Services	33,909,547	-	374,466	-	(33,535,081)	(28,023,205)
Regular Instruction	271,063,329	37,951	42,265,794	-	(228,759,584)	(222,029,506)
Vocational Education Instruction	4,273,982	-	566,832	-	(3,707,150)	(3,973,776)
Special Education Instruction	110,670,327	3,768,199	59,373,376	-	(47,528,752)	(45,528,542)
Instructional Support Services	41,485,771	238,918	732,198	-	(40,514,655)	(38,470,576)
Pupil Support Services	54,979,766	-	2,663,658	-	(52,316,108)	(42,054,137)
Sites and Buildings	59,370,674	2,627,399	23,217	-	(56,720,058)	(49,974,550)
Fiscal and Other Fixed Cost Programs	539,461	-	-	-	(539,461)	(526,232)
Food Service	20,180,224	1,610,732	15,562,700	-	(3,006,792)	529,318
Community Service	24,474,808	7,567,968	11,599,993	-	(5,306,847)	(6,829,223)
Interest and Fiscal Charges on Long-Term Liabilities	13,683,301	-	-	11,000,000	(2,683,301)	(5,671,147)
Total School District	<u>\$ 648,207,886</u>	<u>\$ 15,851,167</u>	<u>\$ 133,191,221</u>	<u>\$ 11,000,000</u>	(488,165,498)	(455,215,708)
General Revenues						
Property Taxes Levied for:						
General Purposes					103,878,013	91,740,730
Community Service					4,759,244	5,150,323
Debt Service					56,406,896	49,280,421
Capital Projects					1,361,633	13,509,818
State Aid Not Restricted to Specific Purposes					298,038,183	288,212,757
Earnings on Investments					102,088	984,641
Gain on Sale of Capital Assets					64,027	2,182,065
Miscellaneous					9,016,551	12,078,625
Total General Revenues					<u>473,626,635</u>	<u>463,139,380</u>
Change in Net Position					(14,538,863)	7,923,672
Net Position - Beginning					<u>269,176,246</u>	<u>261,252,574</u>
Net Position - Ending					<u>\$ 254,637,383</u>	<u>\$ 269,176,246</u>

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

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

	Major Funds					Total	
	General	Food Service	Community Service	Capital Projects	Debt Service	Governmental Funds	
						2013	2012
ASSETS							
Cash and Investments	\$ 73,825,568	\$ -	\$ 1,507,562	\$ 45,996,871	\$ 35,485,617	\$ 156,815,618	\$ 86,943,933
Cash and Investments Held by Trustee	-	-	-	1,065,985	38,414,521	39,480,506	26,189,419
Receivables:							
Current Property Taxes	52,426,013	-	2,378,276	-	31,261,897	86,066,186	83,646,676
Delinquent Property Taxes	1,401,593	-	68,251	-	788,109	2,257,953	3,242,821
Due from Other Minnesota School Districts	526,693	-	-	-	-	526,693	628,570
Due from Minnesota Department of Education	58,191,252	81,570	1,272,496	-	1,971,265	61,516,583	138,449,083
Due from Federal through Minnesota Department of Education	19,853,647	2,167,021	366,813	-	-	22,387,481	21,324,643
Due from Federal Government Received Directly	310,080	-	-	-	-	310,080	449,754
Due from Other Governmental Units	2,040,694	-	40,157	-	-	2,080,851	2,057,717
Other Receivables	2,957,237	122,778	254,856	68,248	-	3,403,119	3,567,956
Due from Other Funds	513,843	-	-	-	-	513,843	862,882
Prepaid Items	66,862	-	-	-	-	66,862	-
Inventory	686,050	1,144,793	-	-	-	1,830,843	1,439,767
Total Assets	\$ 212,799,532	\$ 3,516,162	\$ 5,888,411	\$ 47,131,104	\$ 107,921,409	\$ 377,256,618	\$ 368,803,221
LIABILITIES AND FUND BALANCE							
Liabilities:							
Salaries and Compensated Absences Payable	\$ 27,691,185	\$ -	\$ -	\$ -	\$ -	\$ 27,691,185	\$ 26,318,981
Payroll Deductions and Employer Contributions Payable	19,027,480	-	-	-	-	19,027,480	14,712,391
Accounts and Contracts Payable	22,123,565	744,323	234,407	8,344,510	-	31,446,805	18,782,104
Due to Other Governmental Units	196,060	-	-	-	-	196,060	10,356
Due to Other Funds	-	513,843	-	-	-	513,843	862,882
Interest Payable	-	-	-	41,704	-	41,704	41,704
Property Tax Shift Adjustment	-	-	-	-	-	-	545,351
Deferred Revenue:							
Property Taxes Levied for Subsequent Year	51,761,769	-	2,443,890	-	62,499,927	116,705,586	111,402,636
Delinquent Property Taxes	1,401,593	-	68,251	-	788,109	2,257,953	3,242,821
Local Sources	466,733	256,863	30,873	-	-	754,469	1,854,419
Total Liabilities	122,668,385	1,515,029	2,777,421	8,386,214	63,288,036	198,635,085	177,773,645
Fund Balance:							
Nonspendable:							
Prepaid Items	66,862	-	-	-	-	66,862	-
Inventory	686,050	1,144,793	-	-	-	1,830,843	1,439,767
Restricted for:							
Alternative Facility Program	-	-	-	2,070,311	-	2,070,311	-
Area Learning Center	2,865,828	-	-	-	-	2,865,828	241,162
Graduation Standards - Gifted and Talented	448,809	-	-	-	-	448,809	314,374
Health and Safety	763,517	-	-	-	-	763,517	37,177
Operating Capital	75,483	-	-	-	-	75,483	77,823
Community Education Programs	-	-	2,150,381	-	-	2,150,381	2,041,692
Early Childhood and Family Educations Programs	-	-	279,662	-	-	279,662	226,994
School Readiness	-	-	168,870	-	-	168,870	174,011
Adult Basic Education	-	-	426,089	-	-	426,089	192,866
Bond Refundings	-	-	-	-	27,175,607	27,175,607	11,004,040
QSCB/QZAB	-	-	-	-	8,704,073	8,704,073	5,718,783
Building Construction	-	-	-	36,674,579	-	36,674,579	26,856,884
Other Purposes	-	856,340	85,988	-	8,753,693	9,696,021	15,220,860
Assigned	35,221,882	-	-	-	-	35,221,882	64,031,880
Unassigned	50,002,716	-	-	-	-	50,002,716	63,451,263
Total Fund Balance	90,131,147	2,001,133	3,110,990	38,744,890	44,633,373	178,621,533	191,029,576
Total Liabilities and Fund Balance	\$ 212,799,532	\$ 3,516,162	\$ 5,888,411	\$ 47,131,104	\$ 107,921,409	\$ 377,256,618	\$ 368,803,221

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	2013	2012
Total Fund Balance for Governmental Funds	\$ 178,621,533	\$ 191,029,576
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	35,004,846	35,004,846
Construction in Progress	24,705,742	47,312,846
Buildings and Improvements, Net of Accumulated Depreciation	416,408,428	384,668,229
Equipment, Net of Accumulated Depreciation	11,177,168	13,407,999
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds.		
	2,257,953	3,242,821
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(5,830,019)	(6,137,361)
Bond issuance costs are reported as expenditures in the governmental funds		
	3,855,218	3,727,105
Internal service funds are used by management to charge the costs 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 at year-end is:		
	13,417,691	20,940,574
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(262,126,000)	(244,881,000)
Unamortized Premiums	(12,128,815)	(10,628,055)
Unamortized Discounts	11,071	13,666
Certificates of Participation Payable	(151,275,000)	(168,525,000)
Other Post Employment Benefit Asset	537,567	-
Total Net Position of Governmental Activities	\$ 254,637,383	\$ 269,176,246

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	Major Funds					Total	
	General	Food Service	Community Service	Capital Projects - Building Construction	Debt Service	Governmental Funds	
						2013	2012
REVENUES							
Local Sources:							
Property Taxes	\$ 104,543,376	\$ -	\$ 4,786,743	\$ 1,361,633	\$ 56,698,902	\$ 167,390,654	\$ 160,040,270
Earnings on Investments	55,018	757	1,275	26,090	136,630	219,770	538,720
Other	16,452,861	1,764,829	8,574,505	368,205	-	27,160,400	29,420,999
State Sources	349,343,385	685,397	9,583,381	-	11,340,222	370,952,385	361,522,992
Federal Sources	50,540,918	14,758,892	1,620,367	-	2,064,160	68,984,337	63,267,535
Total Revenues	520,935,558	17,209,875	24,566,271	1,755,928	70,239,914	634,707,546	614,790,516
EXPENDITURES							
Current:							
Administration	13,210,075	-	-	-	-	13,210,075	12,457,641
District Support Services	20,963,914	-	-	-	-	20,963,914	18,641,716
Regular Instruction	245,525,210	-	-	-	-	245,525,210	232,221,437
Vocational Education Instruction	4,038,638	-	-	-	-	4,038,638	4,385,961
Special Education Instruction	108,595,041	-	-	-	-	108,595,041	106,454,998
Instructional Support Services	40,622,211	-	-	-	-	40,622,211	38,673,552
Pupil Support Services	53,807,517	-	-	-	-	53,807,517	46,094,732
Sites and Buildings	33,175,600	-	-	23,565,609	-	56,741,209	58,288,188
Fiscal and Other Fixed Cost Programs	539,461	-	-	-	-	539,461	526,232
Food Service	-	18,087,541	-	-	-	18,087,541	14,298,873
Community Service	-	-	23,783,894	-	-	23,783,894	24,304,477
Capital Outlay	16,866,445	1,562,618	333,948	30,055,023	-	48,818,034	45,844,753
Debt Service:							
Principal	-	-	-	-	54,330,000	54,330,000	53,725,000
Interest and Fiscal Charges	-	-	-	-	16,871,133	16,871,133	20,908,662
Total Expenditures	537,344,112	19,650,159	24,117,842	53,620,632	71,201,133	705,933,878	676,826,222
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,408,554)	(2,440,284)	448,429	(51,864,704)	(961,219)	(71,226,332)	(62,035,706)
OTHER FINANCING SOURCES (USES)							
Proceeds from Sale of Equipment	-	206,692	-	18,129	-	224,821	5,952
Proceeds from Sale of Real Property	-	-	-	-	12,736	12,736	5,925,742
Bonds Proceeds	3,765,625	-	-	36,004,375	36,100,000	75,870,000	98,345,000
Bond Premium	182,567	-	-	1,695,352	2,377,813	4,255,732	4,918,179
Payment to Refunded Bond Escrow Agent	-	-	-	-	(21,545,000)	(21,545,000)	(87,530,000)
Transfers In	-	-	-	26,104,494	-	26,104,494	2,707,898
Transfers Out	(26,104,494)	-	-	-	-	(26,104,494)	(2,707,898)
Total Other Financing Sources (Uses)	(22,156,302)	206,692	-	63,822,350	16,945,549	58,818,289	21,664,873
Net Change in Fund Balance	(38,564,856)	(2,233,592)	448,429	11,957,646	15,984,330	(12,408,043)	(40,370,833)
Fund Balance - Beginning	128,696,003	4,234,725	2,662,561	26,787,244	28,649,043	191,029,576	231,400,409
Fund Balance - Ending	<u>\$ 90,131,147</u>	<u>\$ 2,001,133</u>	<u>\$ 3,110,990</u>	<u>\$ 38,744,890</u>	<u>\$ 44,633,373</u>	<u>\$ 178,621,533</u>	<u>\$ 191,029,576</u>

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	2013	2012
Net Change in Fund Balance - Total Governmental Funds	\$ (12,408,043)	\$ (40,370,833)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost exceeding capitalization policy thresholds are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	34,547,290	45,110,137
Gain or Loss on Disposal of Capital Assets	64,027	2,182,065
Proceeds from Sales of Capital Assets	(237,557)	(5,931,694)
Depreciation Expense	(27,471,496)	(32,777,133)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

General Obligation Bond Proceeds	(75,870,000)	(47,385,000)
Certificates of Participation Proceeds	-	(50,960,000)
Payment to Refunded Bond Escrow Agent	21,545,000	87,530,000
Bond Premium	(4,255,732)	(4,918,179)
Bond Issuance Costs	778,335	1,184,091
Repayment of Certificates of Participation Payable	17,250,000	16,320,000
Repayment of Bond Principal	37,080,000	37,405,000
Change in Accrued Interest Expense	307,342	1,242,253
Amortization of Bond Issuance Costs	(650,222)	(985,381)
Amortization of Bond Premium	2,754,972	2,799,147
Amortization of Bond Discount	(2,595)	(2,595)

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(984,868)	(358,978)
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In the statement of activities, certain prefunded long-term obligations - net other post employment benefit assets - are measured by the amounts of the actuarial accrued liability which is prefunded. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	537,567	-
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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.	(7,522,883)	(2,159,228)
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Change in Net Position of Governmental Activities	\$ (14,538,863)	\$ 7,923,672
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See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 91,907,674	\$ 91,907,674	\$ 104,543,376	\$ 12,635,702
Earnings on Investments	-	-	55,018	55,018
Other	15,000,000	15,000,000	16,452,861	1,452,861
State Sources	353,792,326	353,792,326	349,343,385	(4,448,941)
Federal Sources	58,000,000	58,000,000	50,540,918	(7,459,082)
Total Revenues	518,700,000	518,700,000	520,935,558	2,235,558
EXPENDITURES				
Current:				
Administration	13,921,643	13,484,368	13,210,075	(274,293)
District Support Services	40,860,681	20,425,035	20,963,914	538,879
Regular Instruction	235,666,831	247,176,599	245,525,210	(1,651,389)
Vocational Education Instruction	3,671,426	4,036,818	4,038,638	1,820
Special Education Instruction	103,764,521	108,163,202	108,595,041	431,839
Instructional Support Services	40,904,611	40,912,934	40,622,211	(290,723)
Pupil Support Services	48,110,254	52,792,083	53,807,517	1,015,434
Sites and Buildings	32,541,501	33,892,671	33,175,600	(717,071)
Fiscal and Other Fixed Cost Programs	6,770,000	6,770,000	539,461	(6,230,539)
Capital Outlay	11,365,691	9,923,449	16,866,445	6,942,996
Total Expenditures	537,577,159	537,577,159	537,344,112	(233,047)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(18,877,159)	(18,877,159)	(16,408,554)	2,468,605
OTHER FINANCING SOURCES (USES)				
Bonds Proceeds	-	-	3,765,625	3,765,625
Bond Premium	-	-	182,567	182,567
Transfers Out	-	-	(26,104,494)	(26,104,494)
Total Other Financing Sources (Uses)	-	-	(22,156,302)	(22,156,302)
Net Change in Fund Balances	\$ (18,877,159)	\$ (18,877,159)	(38,564,856)	\$ (19,687,697)
FUND BALANCE				
Beginning of Year			128,696,003	
End of Year			\$ 90,131,147	

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Earnings on Investments	\$ -	\$ -	\$ 757	\$ 757
Other - Primarily Meal Sales	2,971,302	2,119,698	1,764,829	(354,869)
State Sources	721,975	714,363	685,397	(28,966)
Federal Sources	14,264,797	15,855,085	14,758,892	(1,096,193)
Total Revenues	<u>17,958,074</u>	<u>18,689,146</u>	<u>17,209,875</u>	<u>(1,479,271)</u>
EXPENDITURES				
Current:				
Food Service	16,551,207	17,407,599	18,087,541	679,942
Capital Outlay	1,500,000	1,737,620	1,562,618	(175,002)
Total Expenditures	<u>18,051,207</u>	<u>19,145,219</u>	<u>19,650,159</u>	<u>504,940</u>
Deficiency of Revenues Under Expenditures	(93,133)	(456,073)	(2,440,284)	(1,984,211)
OTHER FINANCING SOURCES				
Proceeds from Sale of Equipment	<u>-</u>	<u>-</u>	<u>206,692</u>	<u>206,692</u>
Net Change in Fund Balance	<u>\$ (93,133)</u>	<u>\$ (456,073)</u>	<u>(2,233,592)</u>	<u>\$ (1,777,519)</u>
FUND BALANCE				
Beginning of Year			<u>4,234,725</u>	
End of Year			<u>\$ 2,001,133</u>	

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 4,305,539	\$ 4,305,539	\$ 4,786,743	\$ 481,204
Earnings on Investments	-	-	1,275	1,275
Other - Primarily Tuition and Fees	8,258,549	10,558,549	8,574,505	(1,984,044)
State Sources	9,165,937	9,972,655	9,583,381	(389,274)
Federal Sources	900,000	900,000	1,620,367	720,367
Total Revenues	<u>22,630,025</u>	<u>25,736,743</u>	<u>24,566,271</u>	<u>(1,170,472)</u>
EXPENDITURES				
Current:				
Community Service	22,517,341	25,354,497	23,783,894	(1,570,603)
Capital Outlay	112,684	382,246	333,948	(48,298)
Total Expenditures	<u>22,630,025</u>	<u>25,736,743</u>	<u>24,117,842</u>	<u>(1,618,901)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	448,429	<u>\$ 448,429</u>
FUND BALANCE				
Beginning of Year			<u>2,662,561</u>	
End of Year			<u>\$ 3,110,990</u>	

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION
PROPRIETARY FUND
INTERNAL SERVICE FUND
JUNE 30, 2013**

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

	2013	2012
ASSETS		
Current Assets:		
Cash and Investments	\$ 53,913,242	\$ 72,013,341
Prepaid Insurance	133,269	199,904
Total Current Assets	54,046,511	72,213,245
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,901,690	3,372,663
Accrued Severance	3,062,688	4,083,104
Loss and Loss Adjustment Reserves:		
Workers' Compensation	3,329,584	3,453,109
Total Current Liabilities	8,293,962	10,908,876
Noncurrent Liabilities:		
Loss and Loss Adjustment Reserves		
Workers' Compensation	1,642,387	1,660,207
Incurred but Not Reported Reserves:		
Workers' Compensation	1,642,387	1,660,207
Property/Casualty	1,485,031	622,508
Accrued Severance	27,565,053	26,722,137
Accrued Health Insurance Benefits	-	9,698,736
Total Liabilities	40,628,820	51,272,671
NET POSITION		
Unrestricted	\$ 13,417,691	\$ 20,940,574

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION
PROPRIETARY FUND
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	2013	2012
OPERATING REVENUES		
Local Sources - Charges for Services	\$ 6,144,438	\$ 11,629,479
OPERATING EXPENSES		
Loss and Loss Adjustments	1,715,675	582,803
Claims Administration	408,333	392,198
Workers Compensation and Other Benefits	9,221,239	6,283,704
Severance	2,204,392	6,975,923
Total Operating Expenses	13,549,639	14,234,628
Operating Loss	(7,405,201)	(2,605,149)
NONOPERATING INCOME (LOSS)		
Earnings on Investments	(117,682)	445,921
Change in Net Position	(7,522,883)	(2,159,228)
Total Net Position - Beginning	20,940,574	23,099,802
Total Net Position - Ending	\$ 13,417,691	\$ 20,940,574

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Premiums	\$ 6,211,073	\$ 11,742,790
Claims Administration	(1,879,306)	1,584,199
Claims Paid	(1,012,317)	(2,167)
Benefits Paid	(21,301,867)	(11,023,265)
Net Cash Provided (Used) by Operating Activities	(17,982,417)	2,301,557
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	(117,682)	445,921
Net Increase (Decrease) in Cash and Cash Equivalents	(18,100,099)	2,747,478
Cash and Cash Equivalents - Beginning	72,013,341	69,265,863
Cash and Cash Equivalents - Ending	\$ 53,913,242	\$ 72,013,341
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Loss	\$ (7,405,201)	\$ (2,605,149)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Accounts Payable	(1,470,973)	1,976,397
Prepaid Insurance	66,635	113,311
Loss and Loss Adjustment Reserves	703,358	580,636
Accrued Health Insurance Benefits	(9,698,736)	4,021,718
Accrued Compensated Absences	(177,500)	(1,785,356)
Total Adjustments	(10,577,216)	4,906,706
Net Cash Provided (Used) by Operating Activities	\$ (17,982,417)	\$ 2,301,557

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013**

	<u>Other Post- Employment Benefit Trust</u>
ASSETS	
Investments Held in Trust for Postemployment Benefits	<u>\$ 14,920,422</u>
NET POSITION	
Held in Trust for Postemployment Benefits	<u>\$ 14,920,422</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2013**

ADDITIONS	
Earnings (Loss) on Investments	\$ (79,578)
Contribution to Other Postemployment Benefit Trust	<u>15,000,000</u>
Change in Net Position	14,920,422
Total Net Position - Beginning	<u>-</u>
Total Net Position - Ending	<u>\$ 14,920,422</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Special School 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. 24, *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

Special School 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 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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

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.

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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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.

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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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 or unearned revenue on its balance sheet and government-wide statement of net position. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred or 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 liability for deferred or unearned revenue is removed and revenue is recognized.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of 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 includes 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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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.

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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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.

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>
<u>Special Revenue Funds:</u>			
Food Service Fund	\$ 17,958,074	\$ 731,072	\$ 18,689,146
Community Service Fund	22,630,025	3,106,718	25,736,743
Debt Service Fund	72,310,162	38,477,813	110,787,975
 <u>Expenditures (including Other Financing Uses)</u>			
<u>Special Revenue Funds:</u>			
Food Service Fund	18,051,207	1,094,012	19,145,219
Community Service Fund	22,630,025	3,106,718	25,736,743
Debt Service Fund	82,184,966	10,835,000	93,019,966

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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

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 balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

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.

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 2a7 of the Investment Act of 1940 are valued at the pool's share price.

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 a 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 SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to the Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through state credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy plus an additional amount related to a decrease in the 1993 Pay 1994 referendum levy related to the allocation of HACA and resulting increase in referendum equalization aid (frozen at \$11,255,239) advance recognized as revenue in fiscal 2011 with no corresponding state aid adjustment. Starting in fiscal year 2011, the tax shift was expanded to include all other General and Community Service Fund levies (net of credits). State aids were then reduced in fiscal year 2011 by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. This resulted in a significant increase in the advance recognition of tax revenue in the General Fund (and corresponding state aid holdback totaling \$36,403,624) but also included an advance recognition tax shift in the District's Community Service Fund (and corresponding state aid holdback totaling \$1,994,568). In fiscal year 2013, the tax shift was increased by \$5,571,319 in the General Fund. Since advance collections of Pay 2013 levy amounts at June 30, 2013, were sufficient to cover the amounts required to be advance recognized as revenue in fiscal 2013, the amount advance recognized is tax revenue. To the extent advance collections would have been insufficient to cover the amount to be advance recognized, state statute requires that fiscal 2014 general education aid be recognized. Certain other portions of the District's 2012 pay 2013 levy, normally revenue for the 2013-14 fiscal year, are also advance recognized as of June 30, 2013, as required by state statute to match revenue with the same fiscal year as the related expenditures.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes (Continued)

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2013, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

J. 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:

Asset	Useful Life
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. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. 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 after the first three years of service ranging between 0.0% and 10.08% depending on position after that point in time.

M. 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".

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. 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.

O. Net Position

Net position represents the difference between assets and liabilities in the Government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the Government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Estimates

The preparation of financial statements in conformity with GAAP 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 the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Q. 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, 2012, from which the summarized information was derived.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following fund at June 30, 2013:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds:			
Food Service Fund	\$ 19,145,219	\$ 19,650,159	\$ 504,940

The excess of expenditures over budget in the Food Service Fund was due to the purchase of equipment in various school sites for installing salad bars.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

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 School 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 departments of a commercial bank or other financial institution not owned or controlled by the depository.

The carrying value and bank balance of the District's deposits in banks at June 30, 2013 is \$256,308 and \$6,989,452, respectively.

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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Investment Policy (Continued):

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:

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, 2013, the District held no commercial paper.

As of June 30, 2013, 30.90% 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; 57.19% was invested in the Minnesota School District Liquid Asset Fund Plus which is rated "AAAm"; .73% was invested in various bonds; and 3.74% was invested in mutual funds. The remaining 7.44% 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, 2013. The individual investment issuers which individually comprise more than 5% of the District's total investments are as follows:

Federal National Mortgage Association (FNMA)	5.79%
U.S. Treasury, 1.750%, matures 1/31/14	6.26%

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Risk Rate:

As of June 30, 2013, the market values, duration and percent allocation of the District's investments were as follows:

Investment Type	Market Value	Duration (Years)	Percent Allocation
MSDLAF+	\$ 151,632,650	0.003	57.19 %
Federal National Mortgage Association (FNMA)	15,348,084	2.356	5.79
Federal Home Loan Bank (FHLB)	9,400,414	1.612	3.55
U.S. Treasury Securities	45,237,522	1.901	17.06
FICO Strips	919,630	4.372	0.35
Federal Home Loan Mortgage Corp (FHLMC)	1,393,324	4.273	0.53
Fannie Mae	7,280,488	1.630	2.75
Federal Farm Credit Bank (FFCB)	2,335,671	6.100	0.88
GO Bonds	1,938,449	1.631	0.73
Mutual Funds	9,920,634	0.003	3.74
Cash / Money Market Funds	19,722,922	0.003	7.44
Total	<u>\$ 265,129,788</u>		<u>100.00 %</u>

These amounts are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 210,728,860
Cash and Investments Held by Trustee - Statement of Net Position	39,480,506
Assets Held in Trust for Postemployment Benefits - Statement of Fiduciary Net Position	14,920,422
Total Cash and Investments	<u>\$ 265,129,788</u>

The weighted average duration of the District's cash and investments was 2.05 years at fiscal year-end.

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 Special School District No. 1 and held by the counterparty to the investment transactions. As of June 30, 2013, all of the District's investments were registered in the District's name. Merrill Lynch, US Bank and Voyager Asset Management are counterparties to the transactions of those investments held by each agent as of June 30, 2013 and, thus, are not independent third-party custodial agents.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Cash and Investments Held by Trustee

Cash and investments of \$39,480,506 are held by an escrow agent in accordance with escrow agreements established with the sale of certain refunding bonds. As securities mature, proceeds will be used to pay in full the refunding bonds.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 35,004,846	\$ -	\$ -	\$ 35,004,846
Construction in Progress	47,312,846	29,760,977	(52,368,081)	24,705,742
Total Capital Assets, Not Being Depreciated	82,317,692	29,760,977	(52,368,081)	59,710,588
Capital Assets, Being Depreciated:				
Buildings and Improvements	834,312,366	55,145,420	-	889,457,786
Equipment	68,855,537	2,008,974	(6,444,333)	64,420,178
Total Capital Assets, Being Depreciated	903,167,903	57,154,394	(6,444,333)	953,877,964
Accumulated Depreciation for:				
Buildings and Improvements	(449,644,137)	(23,405,221)	-	(473,049,358)
Equipment	(55,447,538)	(4,066,275)	6,270,803	(53,243,010)
Total Accumulated Depreciation	(505,091,675)	(27,471,496)	6,270,803	(526,292,368)
Total Capital Assets, Being Depreciated, Net	398,076,228	29,682,898	(173,530)	427,585,596
Governmental Activities Capital Assets, Net	<u>\$ 480,393,920</u>	<u>\$ 59,443,875</u>	<u>\$ (52,541,611)</u>	<u>\$ 487,296,184</u>

Depreciation expense of \$27,471,496 for the year ended June 30, 2013 was charged to the following governmental functions:

Governmental Activities	
Administration	\$ 105,374
District Support Services	410,018
Regular Instruction	20,584,732
Special Education Instruction	28,701
Instructional Support Services	99,398
Pupil Support Services	76,596
Sites and Buildings	4,205,995
Food Service	1,582,213
Community Education	378,469
Total Depreciation Expense, Governmental Activities	<u>\$ 27,471,496</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 CAPITAL ASSETS (CONTINUED)

At June 30, 2013, the District carried four vacant closed school buildings in the above amounts. The value of these assets, net of depreciation, recorded on the District's financial statements, totaled approximately \$4.4 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 SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

A. Components of General Long-Term Debt

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
06-15-02	3.00%-5.00%	\$ 3,411,000	06-25-16	\$ -	\$ 3,411,000
03-01-05	3.00%-5.00%	55,380,000	02-01-17	7,805,000	22,115,000
09-15-06	4.00%-4.125%	25,640,000	02-01-14	11,355,000	11,355,000
09-15-06	5.375%-5.70%	25,660,000	02-01-14	18,105,000	18,105,000
11-01-06	4.00%	8,760,000	02-01-14	1,415,000	1,415,000
12-27-07	4.00%-4.125%	28,845,000	02-01-23	1,280,000	15,290,000
9-25-08	3.00% - 4.125%	24,645,000	02-01-24	2,085,000	17,145,000
11-04-09	2.00% - 3.00%	9,590,000	02-01-14	2,190,000	2,190,000
12-15-09	1.15%	17,200,000	02-15-25	-	17,200,000
12-28-10	2.00%-4.00%	17,940,000	02-01-18	2,890,000	15,135,000
12-28-10	2.00%-4.00%	7,750,000	02-01-21	1,150,000	5,480,000
12-28-10	5.125%	19,785,000	12-15-25	-	19,785,000
07-26-11	2.00%-4.00%	10,525,000	02-01-20	1,395,000	10,525,000
12-01-11	3.00%-4.00%	16,770,000	02-01-27	1,470,000	15,435,000
12-01-11	3.80%	4,260,000	12-15-25	-	4,260,000
12-01-11	2.00%-3.00%	15,830,000	02-01-14	7,410,000	7,410,000
12-18-12	2.00%-3.00%	21,220,000	02-01-33	1,180,000	21,220,000
12-18-12	2.00%-3.00%	18,550,000	02-01-33	750,000	18,550,000
12-18-12	1.50%-4.00%	10,285,000	02-01-16	3,325,000	10,285,000
12-18-12	3.00%-4.00%	9,285,000	02-01-22	-	9,285,000
12-18-12	2.00%	16,530,000	02-01-22	-	16,530,000
Total General Obligation Bonds		367,861,000		63,805,000	262,126,000
03-01-05	4.00%-4.50%	86,720,000	02-01-21	7,160,000	53,370,000
11-12-02	2.50%-5.00%	16,750,000	02-01-15	1,200,000	2,470,000
11-04-09	3.00%-4.00%	22,850,000	02-01-17	3,285,000	13,780,000
12-28-10	6.50%	12,990,000	04-01-36	-	12,990,000
12-28-10	1.40%-6.5%	28,235,000	04-01-30	1,240,000	26,080,000
07-26-11	2.00%-5.00%	31,255,000	02-01-20	3,520,000	24,365,000
12-01-11	2.00%-3.20%	19,705,000	02-01-23	1,595,000	18,220,000
Total Certificates of Participation		218,505,000		18,000,000	151,275,000
Bond Premium - Net				-	12,128,815
Bond Discounts - Net				-	(11,071)
Self Insurance Reserves and Postemployment Benefits				6,392,272	38,727,130
				\$ 88,197,272	\$ 464,245,874

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including severance and health benefits payable are as follows:

Year Ending June 30,	General Obligation Bonds Payable		Certificates of Participation Payable	
	Principal	Interest	Principal	Interest
2014	\$ 63,805,000	\$ 9,191,325	\$ 18,000,000	\$ 6,606,874
2015	25,215,000	6,466,074	18,645,000	6,000,174
2016	25,706,000	5,582,060	17,900,000	5,340,468
2017	18,575,000	4,814,813	18,540,000	4,658,793
2018	14,345,000	4,152,335	15,445,000	3,905,543
2019 - 2023	49,115,000	14,707,672	37,215,000	11,773,441
2024 - 2028	55,290,000	5,902,615	8,620,000	7,166,200
2029 - 2033	10,075,000	924,750	10,065,000	4,216,550
2034 - 2038	-	-	6,845,000	900,575
Total	\$ 262,126,000	\$ 51,741,644	\$ 151,275,000	\$ 50,568,618

C. Description of Long-Term Debt

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 18, 2012, the District issued \$21,220,000 of General Obligation School Building Bonds, Series 2012A. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

On December 18, 2012, the District issued \$18,550,000 of General Obligation Alternative Facility Bonds, Series 2012B. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

On December 18, 2012, the District issued \$10,285,000 of General Obligation Refunding Bonds, Series 2012C. The proceeds of this issue were used on February 1, 2013 to refund, in advance of their stated maturities, the remaining fiscal 2014 through 2016 maturities of the District's General Obligation Bond, 2004 Series, totaling \$10,835,000. After the current refunding, the District assumes full debt service of the principal and interest payments on the 2012C issue. The refunding reduced the District's total future debt service payments for this series of bonds by \$714,411 and resulted in a present value savings of approximately \$707,672.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

General Obligation School Building Bonds (Continued)

On December 18, 2012, the District issued \$9,285,000 of General Obligation Refunding Bonds, Series 2012D. The proceeds of this issue will be 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. After the crossover, the District assumes full debt service of the principal and interest payments on the 2012D issue. The refunding will reduced the District's total future debt service payments for this series of bonds by \$1,167,056 and resulted in a present value savings of approximately \$1,104,349.

On December 18, 2012, the District issued \$16,530,000 of General Obligation Refunding Bonds, Series 2012E. The proceeds of this issue will be 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. After the crossover, the District assumes full debt service of the principal and interest payments on the 2012E issue. The refunding will reduced the District's total future debt service payments for this series of bonds by \$2,866,765 and resulted in a present value savings of approximately \$2,647,961.

Certificates of Participation

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, 2012	Additions	Reductions	June 30, 2013
Governmental Activities				
Bonds Payable:				
General Obligation Bonds	\$ 244,881,000	\$ 75,870,000	\$ (58,625,000)	\$ 262,126,000
Bond Premium	10,628,055	4,255,732	(2,754,972)	12,128,815
Bond Discount	(13,666)	-	2,595	(11,071)
Certificates of Participation Payable	168,525,000	-	(17,250,000)	151,275,000
Self Insurance Reserves and Post Employment Benefits	47,900,008	5,631,054	(14,803,932)	38,727,130
Total Governmental Activity Long-Term Liabilities	<u>\$ 471,920,397</u>	<u>\$ 85,756,786</u>	<u>\$ (93,431,309)</u>	<u>\$ 464,245,874</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

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. Any such "restrictions" which have an accumulated deficit rather than a positive balance at June 30 are included in unassigned fund balance in the District's financial statements in accordance with GAAP. However, a description of these "deficit balance restrictions" is included herein since the District has specific statutory authority to levy taxes for such deficits.

Restricted and nonspendable/assigned fund balances at June 30, 2013 are as follows:

	Restricted	Nonspendable/ Assigned
General Fund:		
Restricted for Area Learning Center	\$ 2,865,828	\$ -
Restricted for Gifted and Talented	448,809	-
Restricted for Health and Safety	763,517	-
Restricted for Other Grants	75,483	-
Nonspendable for Prepaid Items	-	66,862
Nonspendable for Inventory	-	686,050
Assigned for Referendum - Class Size	-	748,170
Assigned for Referendum - Other	-	5,043,223
Assigned for Reemployment Insurance	-	1,136,032
Assigned for Site Carryover	-	18,395,888
Assigned for New Escrow Debt Payments	-	9,898,569
Total General Fund	4,153,637	35,974,794
Special Revenue Funds:		
Food Service Fund:		
Restricted for Other Purposes	856,340	-
Nonspendable for Inventory	-	1,144,793
Community Service Fund:		
Restricted for School Readiness	168,870	-
Restricted for Adult Basic Education	426,089	-
Restricted for Community		
Education Programs	2,150,381	-
Restricted for Early Childhood and Family		
Education Programs	279,662	-
Restricted for Other Purposes	85,988	-
Total Special Revenue Funds	3,967,330	1,144,793
Capital Projects - Building Construction Fund:		
Restricted for Alternative Facility Program	2,070,311	-
Restricted for Building Construction	36,674,579	-
Building Construction Fund	38,744,890	-
Debt Service:		
Restricted for Bond Refunding	27,175,607	-
Restricted for QSCB/QZAB	8,704,073	-
Restricted for Other Purposes	8,753,693	-
Total Debt Service Fund	44,633,373	-
Total All Funds	\$ 91,499,230	\$ 37,119,587

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 RESTRICTED FUND BALANCES (CONTINUED)

A. Restricted for Area Learning Center

Restricted for students attending Area Learning Centers.

B. 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.

C. 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.

D. Restricted for Other Grants

Restricted under provisions of various grants.

E. Restricted for School Readiness Programs

The fund balance restriction represents accumulated resources available to provide school readiness programming.

F. Restricted for Adult Basic Education

The fund balance restriction represents accumulated resources available to provide adult basic education services.

G. Restricted for Community Education Programs

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

H. Restricted for Early Childhood and Family Education Programs

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

I. Restricted for Alternative Facility Program

Represents available resources to be used for alternative facilities projects.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 RESTRICTED FUND BALANCES (CONTINUED)

J. Restricted for Building Construction

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

K. Restricted for Bond Refunding

The fund balance restriction represents resources for bonds refinanced.

L. 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.

M. 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.

NOTE 8 INTERFUND BALANCES AND OPERATING TRANSFERS

The District had the following interfund receivable and payable at June 30, 2013:

	Due from Other Fund	Due to Other Fund
General Fund	\$ 513,843	\$ -
Food Service Special Revenue Fund	-	513,843
	\$ 513,843	\$ 513,843

The purpose of these interfund balances was for cash flow purposes.

The District had an interfund transfer for the year ended June 30, 2013 for \$26,104,494 from the General Fund to the Capital Projects Fund to fund capital expenditures to support the Planning for Changing Enrollment plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

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.

A. Teacher's Retirement Association (TRA)

1. Plan Description

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

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive Suite 400
St Paul MN 55103-4000
651-296-6449
800-657-3853

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 RETIREMENT PLANS (CONTINUED)

A. Teacher's Retirement Association (TRA) (Continued)

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.50% and 10.0%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

Employer contribution rates are 6.50% of covered payroll for Coordinated Plan members and 10.50% of covered payroll for Basic Plan members. The District is also required to contribute an additional employer contribution of 3.64% for its employees. The contribution requirements of plan members and the District are established and may be amended by state statute.

Contributions to TRA for the years ended June 30, 2013, 2012 and 2011 were \$24,195,993, \$22,152,254 and \$20,162,039, respectively.

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the website at www.mnpera.org. Alternatively, a copy of the report may be obtained by writing or calling PERA:

Public Employees' Retirement Association
60 Empire Drive Suite 200
St Paul MN 55103-2088
651-296-7460
800-652-9026

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

2. 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 are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013.

The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members and 7.25% for Coordinated Plan GERS members.

The District's contributions for the years ended June 30, 2013, 2012 and 2011 were \$7,392,682, \$7,015,387 and \$6,695,389, respectively, equal to the contractually required contributions for each year as set by state statute.

C. Minneapolis Employees Retirement Fund

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.

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, 2013, 2012 and 2011 were \$806,289, \$875,822 and \$945,709, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 RETIREMENT PLANS (CONTINUED)

C. Minneapolis Employees Retirement Fund (Continued)

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. 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.

D. 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 2013 was \$2,648,324.

NOTE 10 POSTEMPLOYMENT BENEFITS

The District follows Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of July 1, 2011. The District's previous actuarial report for this liability was July 1, 2009.

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 2013, the District contributed \$19,346,538 to the plan, comprised of a \$15 million transfer from the internal service fund to the irrevocable trust fund and \$4,346,538 of actual payments made during the year for postemployment benefits.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 POSTEMPLOYMENT BENEFITS (CONTINUED)

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 2013, the amount actually contributed to the plan, and changes in the District's net OPEB obligation (asset):

Annual Required Contribution	\$ 9,269,214
Interest on Net OPEB Obligation	436,443
Adjustment to Annual Required Contribution	<u>(595,420)</u>
Annual OPEB Cost (Expense)	9,110,237
Contributions Made	<u>(19,346,538)</u>
Increase (Decrease) in Net OPEB Obligation	(10,236,301)
Net OPEB Obligation - Beginning of Year	<u>9,698,736</u>
Net OPEB Obligation (Asset) - End of Year	<u><u>\$ (537,565)</u></u>

The District's annual OPEB costs, 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:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2013	\$ 9,110,237	\$ 19,346,538	212.4 %	\$ (537,565)
6/30/2012	9,176,159	5,154,441	56.2 %	9,698,736
6/30/2011	8,710,458	7,286,638	83.7 %	5,677,018

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 POSTEMPLOYMENT BENEFITS (CONTINUED)

D. Funding Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$83,387,021. The annual payroll for active employees covered by the plan in the actuarial valuation was \$326,581,564 for a ratio of UAAL to covered payroll of 25.5%.

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, 2011 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 SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

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 \$8,099,389 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.

D. 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, 2013, outstanding commitments for these multi-year projects total approximately \$4,379,000.

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, 2013 and 2012 was \$1,880,000 and \$1,840,000, respectively.

Liabilities of \$6,614,358 have been recorded in the Self-Insurance Fund for known workers' compensation claims and for claims incurred but not reported as of June 30, 2013. The recorded reserves are actuarially evaluated annually and adjusted accordingly. The discount rate used at June 30, 2013 was 4.0%.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 12 RISK MANAGEMENT (CONTINUED)

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 \$1,485,031 have been established to cover such claims as of June 30, 2013.

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, 2011	\$ 6,815,395
Claims Incurred, Fiscal Year 2012	6,866,507
Claims Paid, Fiscal Year 2012	<u>(6,285,871)</u>
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	<u>\$ 8,099,389</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 of accrued sick leave subject to a minimum of 60 days and a maximum of 200 days.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO.1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 13 COMPENSATED ABSENCES (CONTINUED)

A. Civil Service (Continued)

(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.

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 SUBSEQUENT EVENT

Subsequent to year-end, the District issued General Obligation School Building Bonds, Series 2013A for \$20,525,000; General Obligation Alternative Facility Bonds, Series 2013B for \$38,090,000; General Obligation Refunding Bonds, Series 2013C for \$13,245,000; and Refunding Certificates of Participation, Series 2013D for \$41,125,000.

Additionally, subsequent to year-end, the District sold a property in Minneapolis for approximately \$1,000,000 and purchased a property with three parcels in Minneapolis for approximately \$2,700,000.

The District also has a pending sale for a portion of property valued at \$2,650,000.

The District also approved the implementation of the Quality Compensation (Q Comp) plan effective October 1, 2013. The program aims to support teachers and advance student achievement by funding collaborative planning time with teachers and ESPs, reinstating annual stipends for teacher leadership roles, enhance the current teacher evaluation system and fund job-embedded professional development. The plan is funded with state and local funding based on annual student enrollment.

REQUIRED SUPPLEMENTARY INFORMATION

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2011	\$ -	\$ 83,387,021	\$ 83,387,021	0.0 %	\$ 326,581,564	25.5 %
7/1/2009	-	91,878,142	91,878,142	0.0	301,334,000	30.5
7/1/2007	-	76,407,816	76,407,816	0.0	286,238,000	26.7

SUPPLEMENTARY INFORMATION

**MINNEAPOLIS PUBLIC SCHOOLS
UNIFORM FINANCIAL ACCOUNTING AND
REPORTING STANDARDS COMPLIANCE TABLE
JUNE 30, 2013**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenues	\$ 520,935,519	\$ 520,935,519	\$ -	Total Revenues	\$ 1,755,928	\$ 1,755,928	\$ -
Total Expenditures	537,344,024	537,344,024	-	Total Expenditures	53,620,632	53,620,638	(6)
<i>Nonspendable</i>				<i>Nonspendable</i>			
460 Nonspendable Fund Balance	752,912	752,912	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved</i>				<i>Restricted/Reserved</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	36,674,579	36,674,581	(2)
405 Deferred Maintenance	-	-	-	409 Alternative Fac. Program	2,070,311	2,070,311	-
406 Health & Safety	763,517	763,517	-	413 Project Funded by COP	-	-	-
407 Capital Project Levy	-	-	-	<i>Restricted</i>			
408 Cooperative Rev.	-	-	-	464 Restricted Fund Balance	-	-	-
409 Deferred Maintenance	-	-	-	<i>Unassigned</i>			
414 Operating Debt	-	-	-	463 Unassigned Fund Balance	-	-	-
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	07 DEBT SERVICE			
423 Certain Teacher Programs	-	-	-	Total Revenues	70,239,914	70,239,912	2
424 Operating Capital	-	-	-	Total Expenditures	71,201,133	71,201,133	-
426 \$25 Taconite	-	-	-	<i>Nonspendable</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable Fund Balance	3,114,229	3,114,229	-
428 Learning & Development	-	-	-	<i>Restricted/Reserved</i>			
434 Area Learning Center	2,865,828	2,865,828	-	425 Bond Refundings	27,175,607	27,175,607	-
435 Contracted Alt. Programs	-	-	-	451 QZAB Payments	8,704,073	8,704,073	-
436 St. Approved Alt. Prog.	-	-	-	<i>Restricted</i>			
438 Gifted & Talented	448,809	448,809	-	464 Restricted Fund Balance	5,639,464	5,639,462	2
441 Basic Skills	-	-	-	<i>Unreserved</i>			
443 Telecomm. Access Cost	-	-	-	463 Unassigned Fund Balance	-	-	-
445 Career & Tech Programs	-	-	-				
449 Safe Schools Levy	-	-	-	08 TRUST			
450 Pre-Kindergarten	-	-	-	Total Revenues	-	-	-
451 QZAB Payments	-	-	-	Total Expenditures	-	-	-
452 OPEB Liab. Not in Trust	-	-	-	<i>Net Position</i>			
453 Unfunded Sev & Retirement Levy	-	-	-	422 Net Position	-	-	-
<i>Restricted</i>							
464 Restricted Fund Balance	75,483	75,483	-	20 INTERNAL SERVICE			
<i>Committed</i>				Total Revenues	6,026,756	6,026,754	2
418 Committed for Separation	-	-	-	Total Expenditures	13,549,639	13,549,639	-
461 Committed Fund Balance	-	-	-	<i>Net Position</i>			
<i>Assigned</i>				422 Net Position	13,417,691	13,417,691	-
462 Assigned Fund Balance	35,221,882	35,221,882	-				
<i>Unassigned</i>				25 OPEB REVOCABLE TRUST			
422 Unassigned Fund Balance	50,002,765	50,002,768	(3)	Total Revenues	-	-	-
02 FOOD SERVICE				Total Expenditures	-	-	-
Total Revenues	17,209,875	17,209,876	(1)	<i>Net Position</i>			
Total Expenditures	19,650,159	19,650,157	2	422 Net Position	-	-	-
<i>Nonspendable</i>							
460 Nonspendable Fund Balance	1,144,793	1,144,789	4	45 OPEB IRREVOCABLE TRUST			
<i>Restricted</i>				Total Revenues	14,920,422	14,920,422	-
452 OPEB Liab Not In Trust	-	-	-	Total Expenditures	-	-	-
464 Restricted Fund Balance	856,340	856,342	(2)	<i>Net Position</i>			
<i>Unassigned</i>				422 Net Position	14,920,422	14,920,422	-
463 Unassigned Fund Balance	-	-	-				
04 COMMUNITY SERVICE				47 OPEB DEBT SERVICE			
Total Revenues	24,566,271	24,566,271	-	Total Revenues	-	-	-
Total Expenditures	24,117,828	24,117,828	-	Total Expenditures	-	-	-
<i>Nonspendable</i>				<i>Nonspendable</i>			
460 Nonspendable Fund Balance	-	-	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved</i>				<i>Restricted/Reserved</i>			
426 \$25 Taconite	-	-	-	425 Bond Refundings	-	-	-
431 Community Education	2,150,381	2,150,381	-	<i>Restricted</i>			
432 E. C. F. E.	279,662	279,662	-	464 Restricted Fund Balance	-	-	-
444 School Readiness	168,870	168,870	-	<i>Unreserved</i>			
447 Adult Basic Education	426,089	426,089	-	463 Unassigned Fund Balance	-	-	-
452 OPEB Liab. Not in Trust	-	-	-				
<i>Restricted</i>							
464 Restricted Fund Balance	86,002	86,001	1				
<i>Unassigned</i>							
463 Unassigned Fund Balance	-	-	-				