

Audit Committee Meeting

Tuesday, December 1, 2020 5:00 PM
Online Meeting

- 1) **Call to Order**
- 2) **Roll Call**
- 3) **Adoption of Agenda**
- 4) **New Business**
- a. Fiscal Year 2020 Financial Audit
- 5) **Adjourn to Finance Committee Meeting**



**DO
MORE**

Special School District No. 1 Minneapolis, MN

Audited Financial Statements

June 30, 2020

bergankov

Components of the Audit

- Independent Auditor's Report -Unmodified Opinion on the District's Financial Statements for the year ended June 30 ,2020
- Report on the result of an audit performed in accordance with Government Auditing Standards
 - One Material Weakness: Segregation of Accounting Duties
- Unmodified Opinion on Compliance over Federal Programs in accordance with Uniform Guidance – No findings
- Unmodified Report on Minnesota Legal Compliance
 - Legal Compliance Finding: Prompt Payment of Local Government Bills

General Fund

Budget to Actual

Budget:

- General Fund Revenue budgeted at \$ 609 million
- General Fund Expenditures budgeted at \$ 617 million
- \$ 8 million decline in fund balance budgeted

Actual:

- General Fund Revenues actually \$ 608 million; \$ 2 million under budget (0.3%) – Conservative budget for state sources of revenues offset by less utilization of federal programs than anticipated
- General Fund Expenditures actually \$ 577 million; \$ 40 million under budget (6.5%) – Main factors include conservative budgeting for staffing, COVID-19 impact
- Fund Balance increased \$ 32 million to \$ 107 million
- Unassigned Fund Balance increased \$ 14 million to \$ 53 million

General Education Aid Formula Formula Allowance

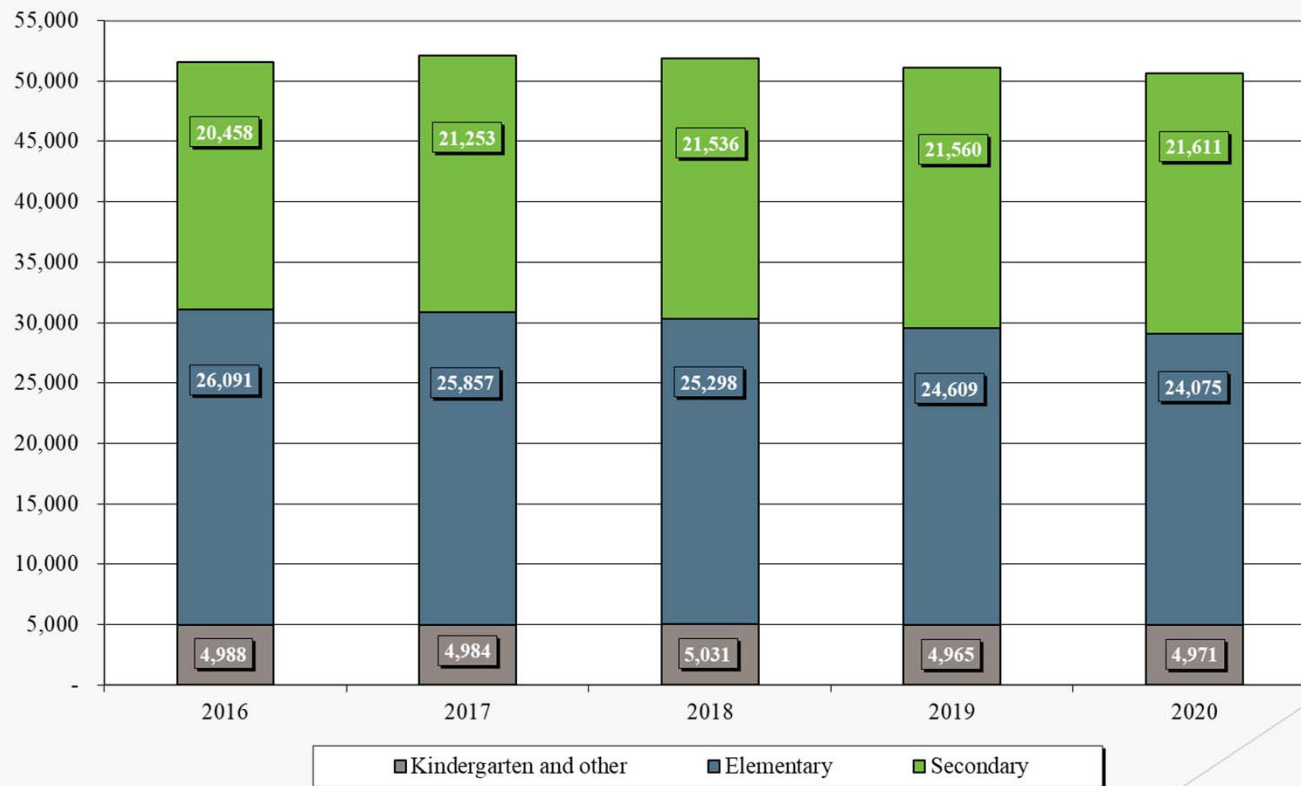
Year	General Education Aid Formula Allowance	
	Amount	Percent Increase
2011	\$ 5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%

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

Average Daily Membership and Pupil Units – Students (Resident ADM)

Students (Resident ADM)	2016	2017	2018	2019	2020
Kindergarten and other	4,988	4,984	5,031	4,965	4,971
Elementary	26,091	25,857	25,298	24,609	24,075
Secondary	20,458	21,253	21,536	21,560	21,611
Total Students (Resident ADM)	51,537	52,094	51,865	51,133	50,657

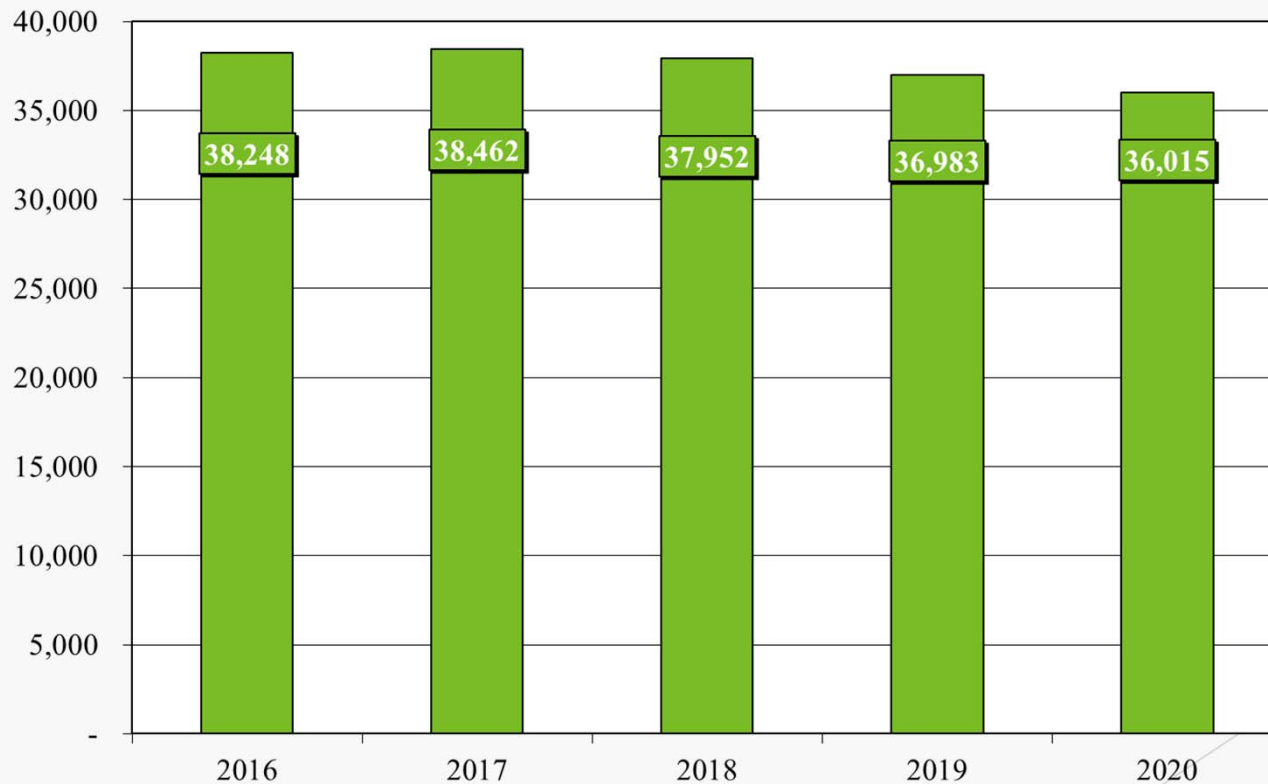
Average Daily Membership and Pupil Units Served - Resident ADM



Average Daily Membership and Adjusted Pupil Units – Adjusted PUN

	Pre-Kindergarten and Handicapped Kindergarten	Kindergarten	Grades 1-3	Grades 4-6	Secondary
Year 2016-2020	1.000	1.000	1.000	1.000	1.200
Adjusted PUN	2016	2017	2018	2019	2020
Residents	55,628	56,344	56,170	55,444	54,979
PUN gain	1,350	1,092	1,374	1,483	1,417
PUN loss	(18,730)	(18,974)	(19,593)	(19,944)	(20,380)
Total Adjusted PUN	38,248	38,462	37,952	36,983	36,015

Average Daily Membership and Adjusted Pupil Units – PUN Served

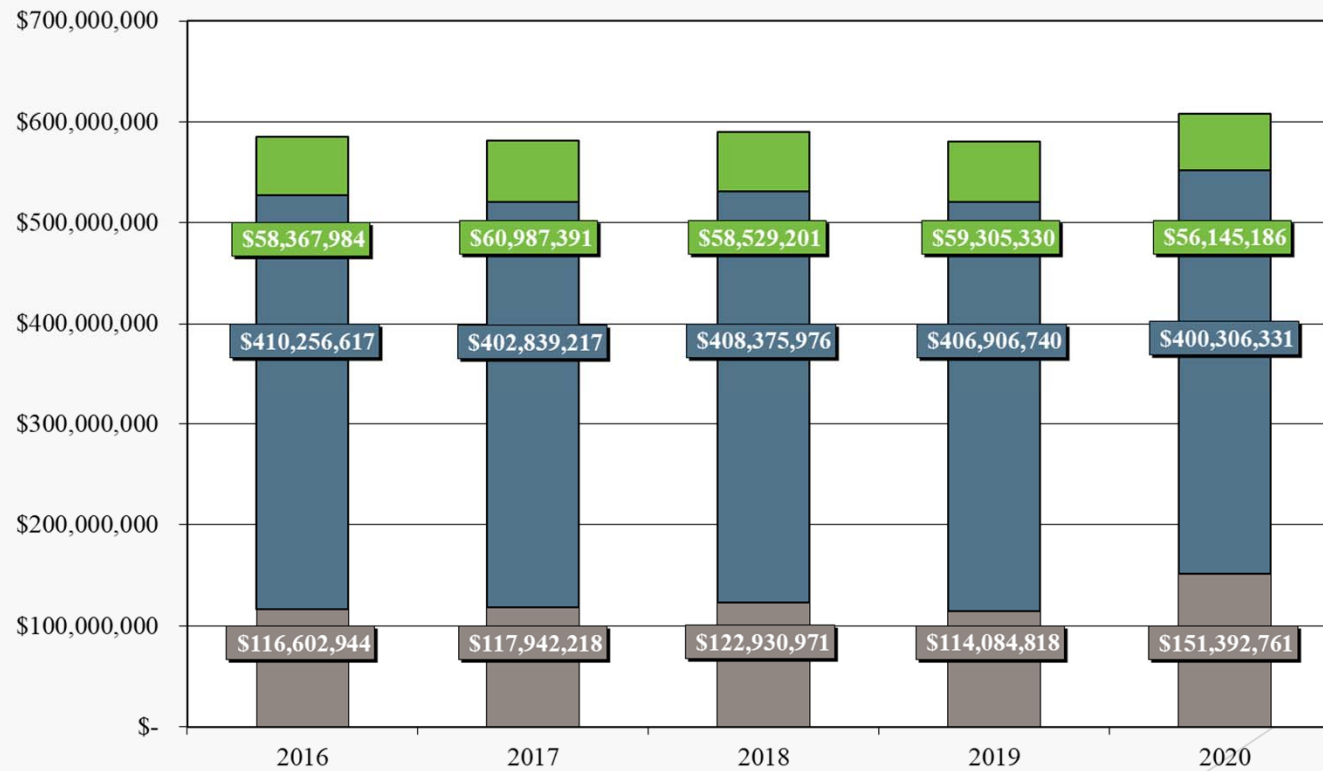


General Fund

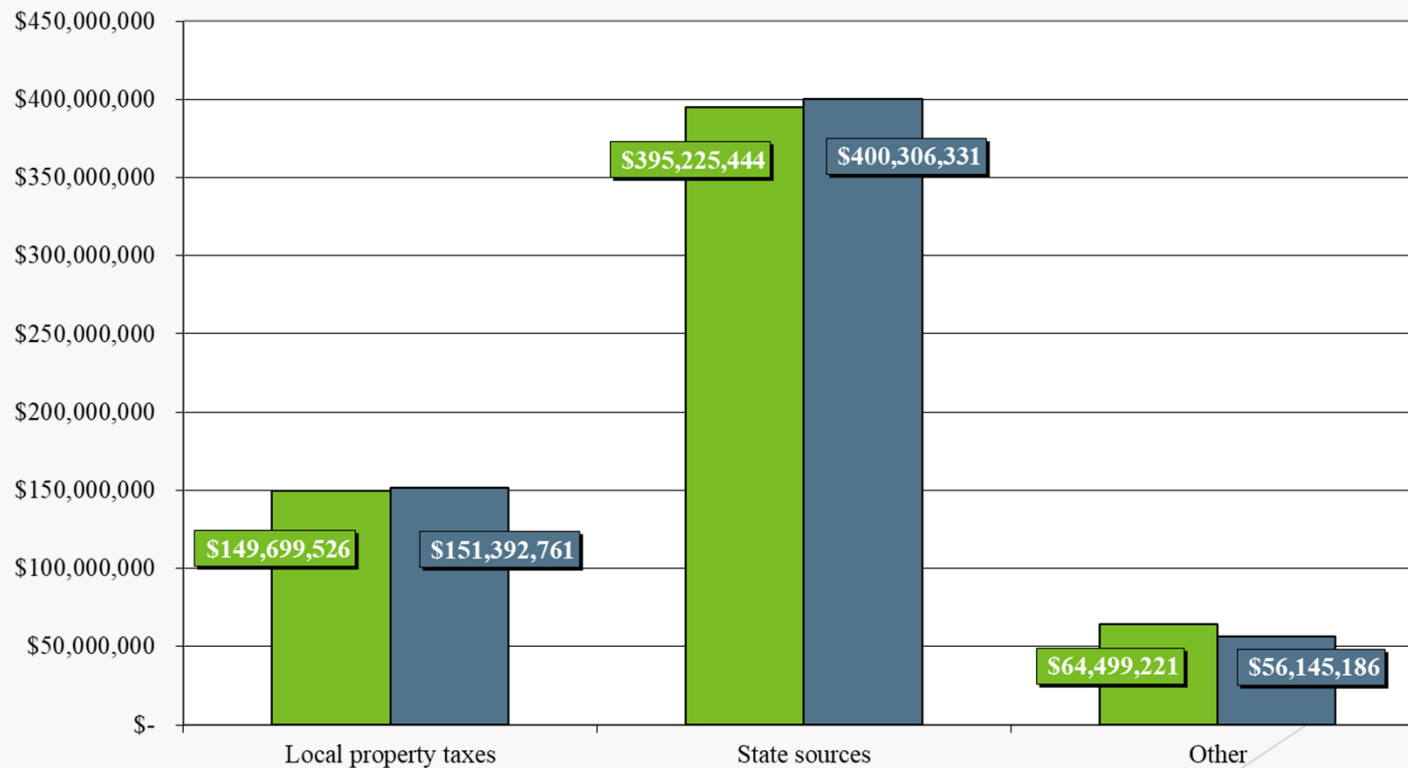
Sources of Revenue

For the Year Ended June 30,	2016	2017	2018	2019	2020
Local property taxes	\$ 116,602,944	\$ 117,942,218	\$ 122,930,971	\$ 114,084,818	\$ 151,392,761
State sources	410,256,617	402,839,217	408,375,976	406,906,740	400,306,331
Other	58,367,984	60,987,391	58,529,201	59,305,330	56,145,186
Total	\$ 585,227,545	\$ 581,768,826	\$ 589,836,148	\$ 580,296,888	\$ 607,844,278

General Fund Sources of Revenue

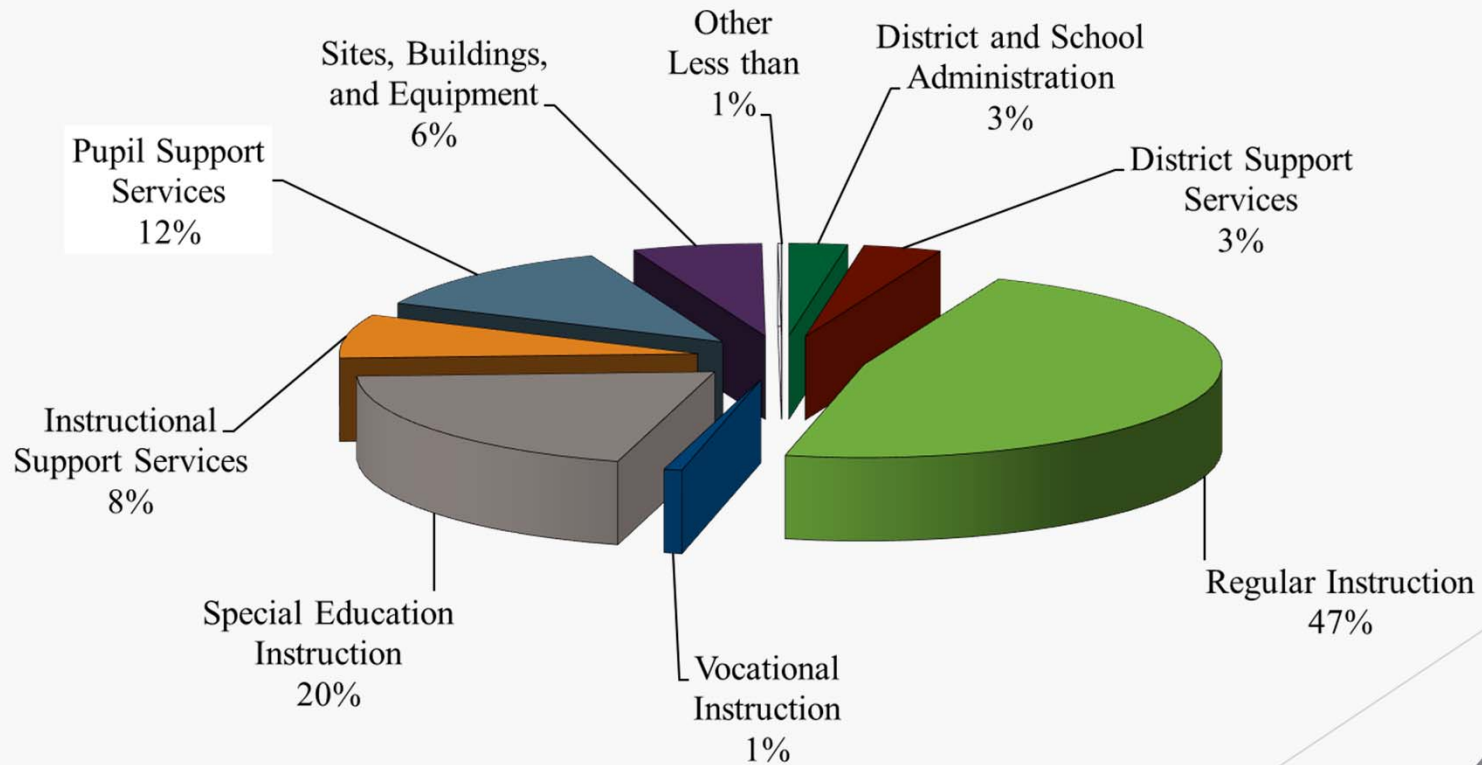


General Fund Revenues – Budget and Actual



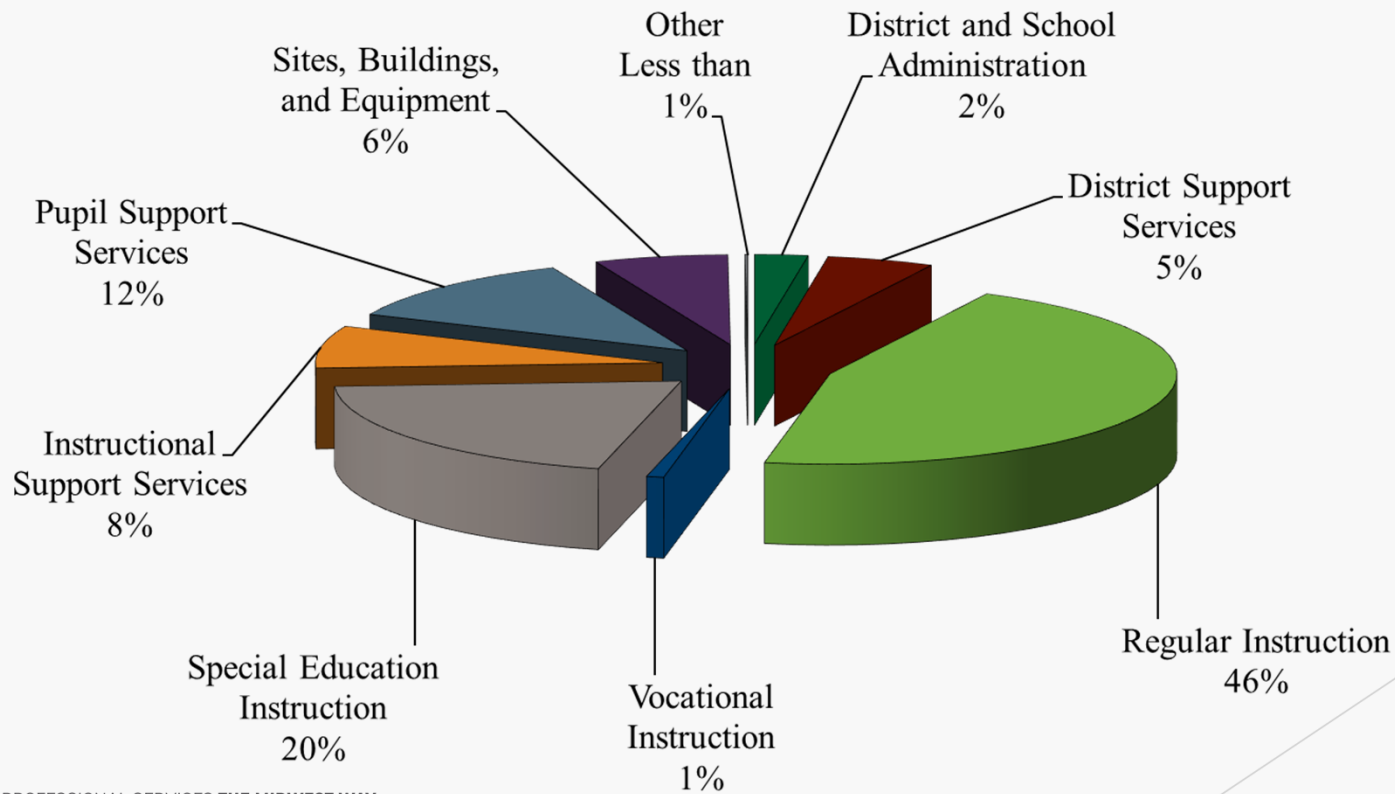
General Fund

2020 Expenditures - \$577,344,220

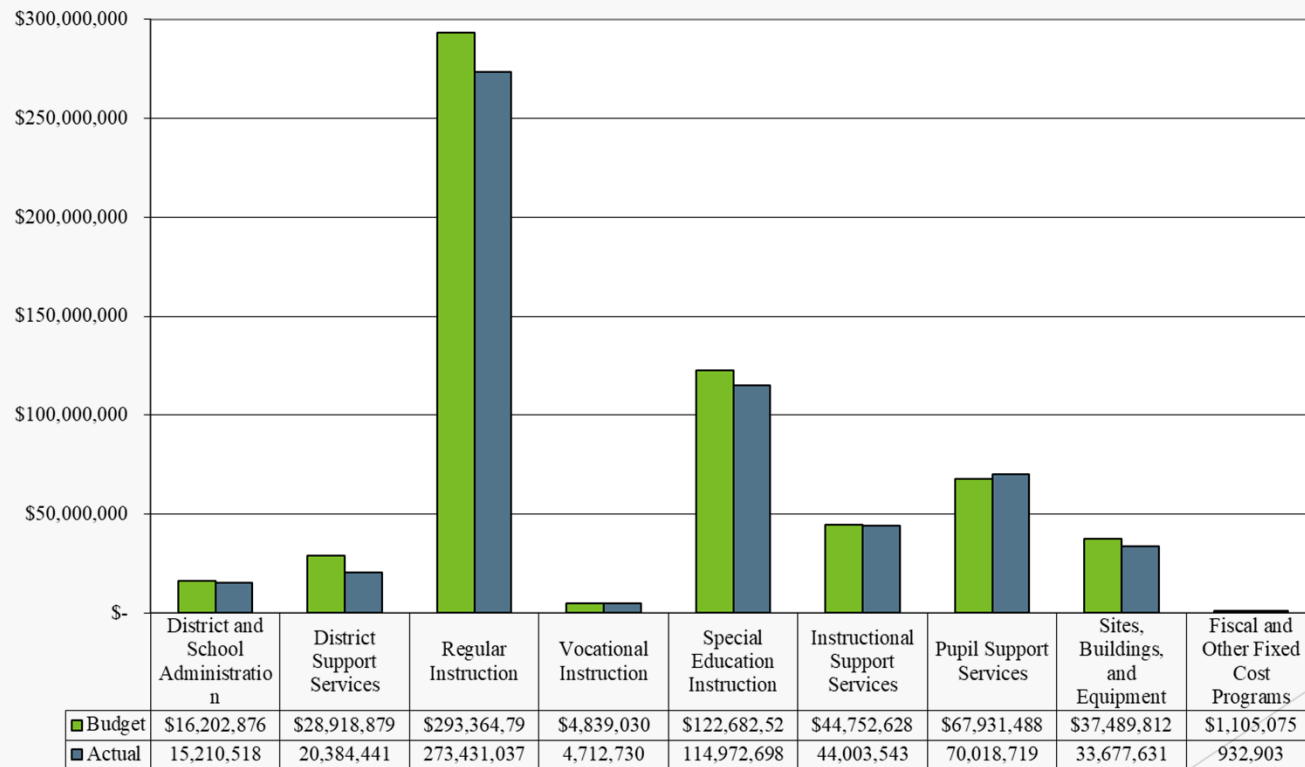


General Fund

2019 Expenditures - \$567,963,106



General Fund Expenditures – Budget and Actual



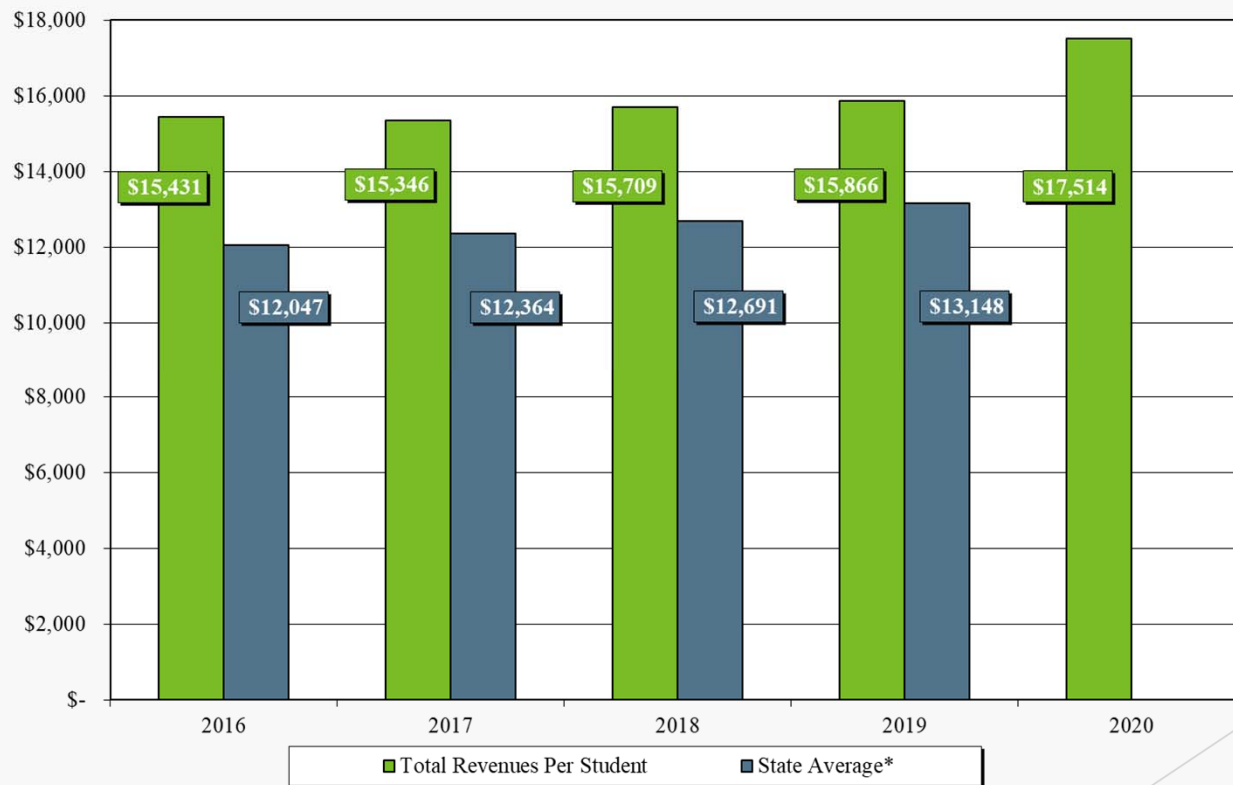
General Fund

Revenues Per ADM Served

Special District No. 1	2016	2017	2018	2019	2020
General Fund	\$ 15,431	\$ 15,346	\$ 15,709	\$ 15,866	\$ 17,514
Food Service Fund	593	599	585	607	684
Community Service Fund	753	789	814	876	822
Building Construction Fund	48	30	33	171	104
Debt Service Fund	1,892	1,997	2,040	2,604	2,690
Post Employment Debt Service Fund	-	-	62	65	68
Total Revenues Per Student	\$ 18,717	\$ 18,761	\$ 19,243	\$ 20,189	\$ 21,882

State Average*	2016	2017	2018	2019	2020
General Fund	\$ 12,047	\$ 12,364	\$ 12,691	13,148	N/A
Food Service Fund	543	554	553	553	N/A
Community Service Fund	562	595	607	638	N/A
Building Construction Fund	108	66	55	112	N/A
Debt Service Fund	991	1,050	1,056	1,146	N/A
Total Revenues Per Student	\$ 14,251	\$ 14,629	\$ 14,962	\$ 15,597	-

General Fund Revenues Per ADM Served

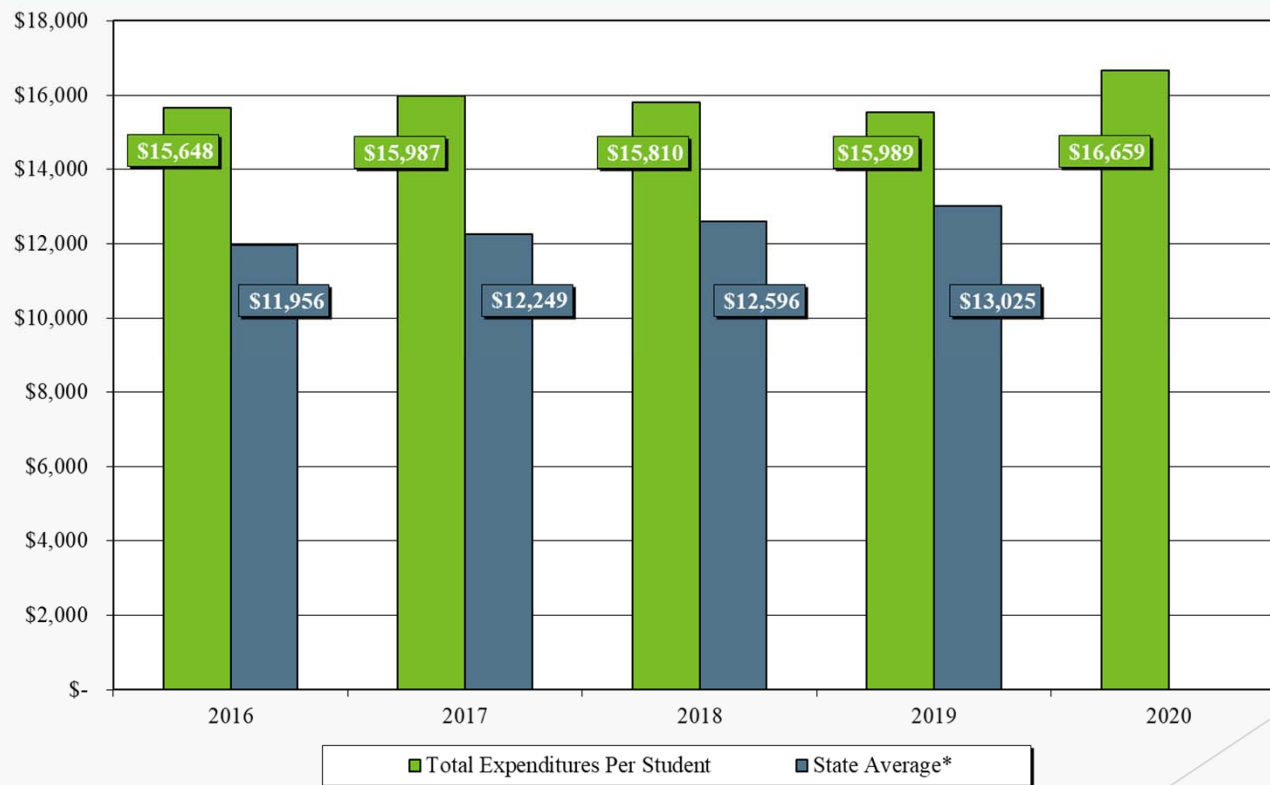


District Expenditures Per ADM Served

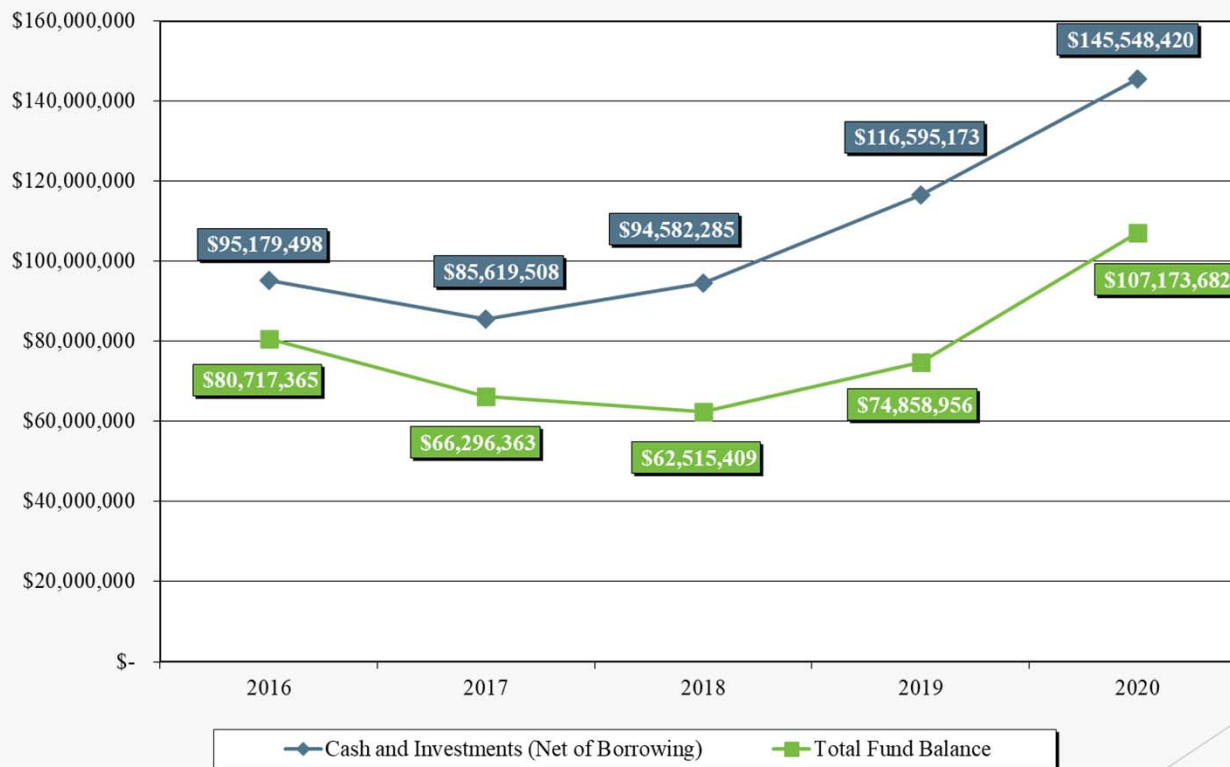
Special District No. 1	2016	2017	2018	2019	2020
General Fund	\$ 15,648	\$ 15,987	\$ 15,810	\$ 15,527	\$ 16,659
Food Service Fund	581	585	578	622	662
Building Construction Fund	3,567	1,747	3,028	3,188	2,628
Community Service Fund	701	755	806	904	901
Debt Service Fund	2,324	2,063	2,056	2,357	2,563
Post Employment Debt Service Fund	-	-	60	62	65
Total Expenditures Per Student	\$ 22,821	\$ 21,137	\$ 22,338	\$ 22,660	\$ 23,479

State Average*	2016	2017	2018	2019	2020
General Fund	\$ 11,956	\$ 12,249	\$ 12,596	13,025	N/A
Food Service Fund	539	546	550	559	N/A
Community Service Fund	550	579	606	638	N/A
Building Construction Fund	1,405	1,785	1,799	1,642	N/A
Debt Service Fund	1,433	1,275	1,224	1,225	N/A
Total Expenditures Per Student	\$ 15,883	\$ 16,434	\$ 16,775	\$ 17,089	-

General Fund Expenditures Per ADM Served



General Fund Operations – Financial Position



General Fund Operations

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	\$ 585,227,545	\$ 581,768,826	\$ 589,836,148	\$ 580,296,888	\$ 607,844,278
Expenditures	(606,384,716)	(605,929,828)	(593,617,102)	(567,963,106)	(577,344,220)
Excess of revenues over (under) expenditures	(21,157,171)	(24,161,002)	(3,780,954)	12,333,782	30,500,058
Proceeds from sale of equipment	8,310	-	-	9,765	18,765
Bond proceeds	5,920,000	6,440,000	-	-	1,100,000
Transfers in	16,000,000	3,300,000	-	-	-
Fund balance, July 1	79,946,226	80,717,365	66,296,363	62,515,409	74,858,956
Change in accounting principle	-	-	-	-	695,903
Fund Balance, June 30	\$ 80,717,365	\$ 66,296,363	\$ 62,515,409	\$ 74,858,956	\$ 107,173,682

Components of Fund Balance					
For the Year Ended June 30,	2016	2017	2018	2019	2020
Nonspendable	\$ 853,532	\$ 128,675	\$ 90,987	\$ 1,227,627	\$ 1,269,376
Restricted for					
Area learning center	-	-	808,181	910,645	1,421,247
Student activities	-	-	-	-	725,174
Achievement and integration	-	-	-	-	2,927,601
Gifted and talented	293,573	-	299,240	514,170	466,385
Health and safety	-	(161,640)	-	-	-
Basic skills extended time	-	-	-	1,235,892	2,792,710
Long-term facilities maintenance	-	(194,164)	-	(944)	160,765
Other	-	-	-	-	1,100,000
Capital projects	-	3,300,000	-	-	-
Assigned	25,350,565	21,455,251	29,671,886	32,138,104	43,737,399
Unassigned	54,219,695	41,748,347	31,645,115	38,833,462	52,573,025
Fund Balance, June 30	\$ 80,717,365	\$ 66,296,363	\$ 62,515,409	\$ 74,858,956	\$ 107,173,682

Food Service Fund

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	\$ 22,486,250	\$ 22,589,754	\$ 21,897,237	\$ 22,062,833	\$ 23,694,428
Expenditures	(22,027,820)	(22,077,485)	(21,646,325)	(22,624,251)	(22,955,476)
Excess of revenues over (under) expenditures	458,430	512,269	250,912	(561,418)	738,952
Proceeds from sale of equipment	24,636	-	1,566	-	-
Bond proceeds	-	245,000	-	-	-
Fund balance, July 1	1,632,480	2,115,546	2,872,815	3,125,293	2,563,875
Fund Balance, June 30	\$ 2,115,546	\$ 2,872,815	\$ 3,125,293	\$ 2,563,875	\$ 3,302,827
Nonspendable	\$ 484,372	\$ 872,545	\$ 835,232	\$ 856,369	\$ 1,615,465
Restricted for other purposes	1,631,174	2,000,270	2,290,061	1,707,506	1,687,362
Total Fund Balance, June 30	\$ 2,115,546	\$ 2,872,815	\$ 3,125,293	\$ 2,563,875	\$ 3,302,827

Community Service Fund

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	\$ 28,570,581	\$ 29,825,786	\$ 30,506,573	\$ 31,853,780	\$ 28,471,098
Expenditures	(26,563,620)	(28,554,216)	(30,234,975)	(32,875,347)	(31,232,002)
Excess of revenues over (under) expenditures	2,006,961	1,271,570	271,598	(1,021,567)	(2,760,904)
Fund balance, July 1	5,426,039	7,433,000	8,704,570	8,976,168	7,954,601
Fund Balance, June 30	\$ 7,433,000	\$ 8,704,570	\$ 8,976,168	\$ 7,954,601	\$ 5,193,697
Restricted for					
School readiness	\$ 269,807	\$ 614,311	\$ 1,311,264	\$ 1,842,528	\$ 1,793,073
Adult basic education	1,297,774	1,278,467	1,263,834	854,424	702,422
Community education programs	4,391,533	5,549,459	5,212,717	4,197,002	1,949,764
ECFE	1,202,910	1,051,105	879,186	702,918	353,624
Other programs	270,976	211,228	309,167	357,729	394,814
Total Fund Balance, June 30	\$ 7,433,000	\$ 8,704,570	\$ 8,976,168	\$ 7,954,601	\$ 5,193,697

QUESTIONS?

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We are powered by people who do business the Midwest way delivering comprehensive business, financial and technology solutions including business planning and consulting, tax, assurance and accounting, technology, wealth management and turnaround management services. From tax reform to technology, we go beyond so you can...

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LET'S DO MORE, TOGETHER.

THANK YOU

**SPECIAL SCHOOL DISTRICT NO. 1
Board of Education**

December 8, 2020

RESOLUTION REGARDING RECEIPT OF FISCAL YEAR 2020 AUDIT

WHEREAS, in accordance with legal requirements, an independent financial audit of Special School District No. 1 was conducted by BerganKDV; and

WHEREAS, the Audit Committee has reviewed the audit findings and recommendations.

NOW, THEREFORE, BE IT HEREBY RESOLVED, that the Board of Directors of Special School District No. 1 hereby affirms receipt of the FY2020 audit.

Signed by:

Kim Ellison
Board of Education Chairperson

Date

Josh Pauly
Board of Education Clerk

Date

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

Communications Letter

June 30, 2020

PRELIMINARY



**Minneapolis Public Schools
Special District No. 1
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PRELIMINARY

Report on Matters Identified as a Result of the Audit of the Financial Statements

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

In planning and performing our audit of the financial statements of Minneapolis Public Schools Special District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

The material weakness identified is stated within this letter.

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

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated December 1, 2020, on such statements.

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

Minneapolis, Minnesota
December 1, 2020

PRELIMINARY

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

Lack of Segregation of Accounting Duties

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

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2020. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

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

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

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

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

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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

Our Responsibility in Relation to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

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

Qualitative Aspects of Significant Accounting Practices (Continued)

Significant Accounting Estimates (Continued)

Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits, and supplies.

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

Net Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the District for post employment benefits.

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

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

We identified the following uncorrected misstatement of the financial statements. Management has determined its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Revenues from state sources are understated

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

Uncorrected and Corrected Misstatements (Continued)

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Material misstatements related to state aids and property taxes were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the District, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditor.

Other Information in Documents Containing Audited Financial Statements

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

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

Other Information in Documents Containing Audited Financial Statements (Continued)

We were not engaged to report on the other information accompanying the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PRELIMINARY

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

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

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

Average Daily Membership and Pupil Units

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

<u>Year</u>	<u>General Education Aid Formula Allowance</u>	
	<u>Amount</u>	<u>Percent Increase</u>
2011	\$ 5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%

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

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

Average Daily Membership and Pupil Units Served

Approximately 66% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans. The following summarizes resident ADM of the District over the past five years ended June 30:

Students (Resident ADM)	2016	2017	2018	2019	2020
Kindergarten and other	4,988	4,984	5,031	4,965	4,971
Elementary	26,091	25,857	25,298	24,609	24,075
Secondary	20,458	21,253	21,536	21,560	21,611
Total Students (Resident ADM)	51,537	52,094	51,865	51,133	50,657



* Estimate as of November 18, 2020

In 2020, total resident ADM decreased by 476 from the prior year, a decline of 0.9%.

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

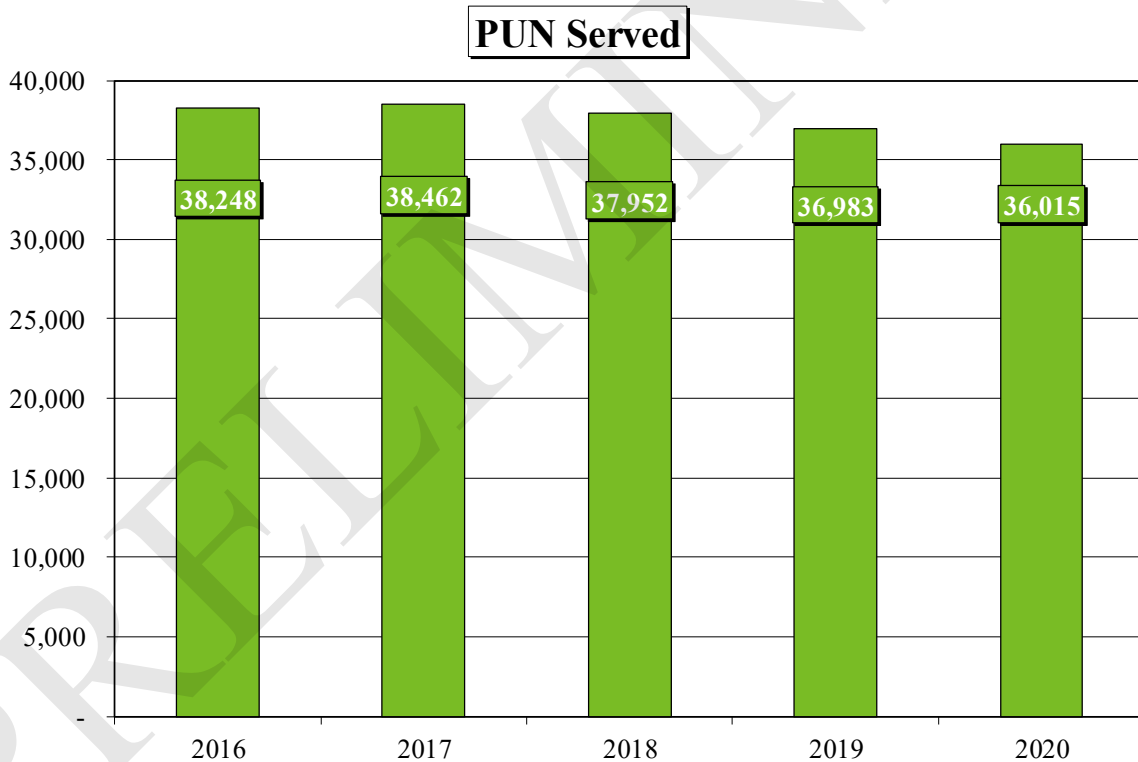
**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

Average Daily Membership and Adjusted Pupil Units

Year 2016-2020	Pre-Kindergarten and Handicapped		Grades	Grades	Secondary
	Kindergarten	Kindergarten	1-3	4-6	
Year 2016-2020	1.000	1.000	1.000	1.000	1.200

The following chart and graph convert the ADM into adjusted pupil units (PUN) for the same five-year period, as noted on the previous page.

Adjusted PUN	2016	2017	2018	2019	2020
Residents	55,628	56,344	56,170	55,444	54,979
PUN gain	1,350	1,092	1,374	1,483	1,417
PUN loss	(18,730)	(18,974)	(19,593)	(19,944)	(20,380)
Total Adjusted PUN	38,248	38,462	37,952	36,983	36,015



* Estimate as of November 18, 2020

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

In 2020, total PUN served decreased by 968 from the prior year, a decrease of 2.6%. This was a result of a decrease in resident PUN of 466, a decrease in PUN gain of 66, and a decrease in PUN loss of 436 to other districts.

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

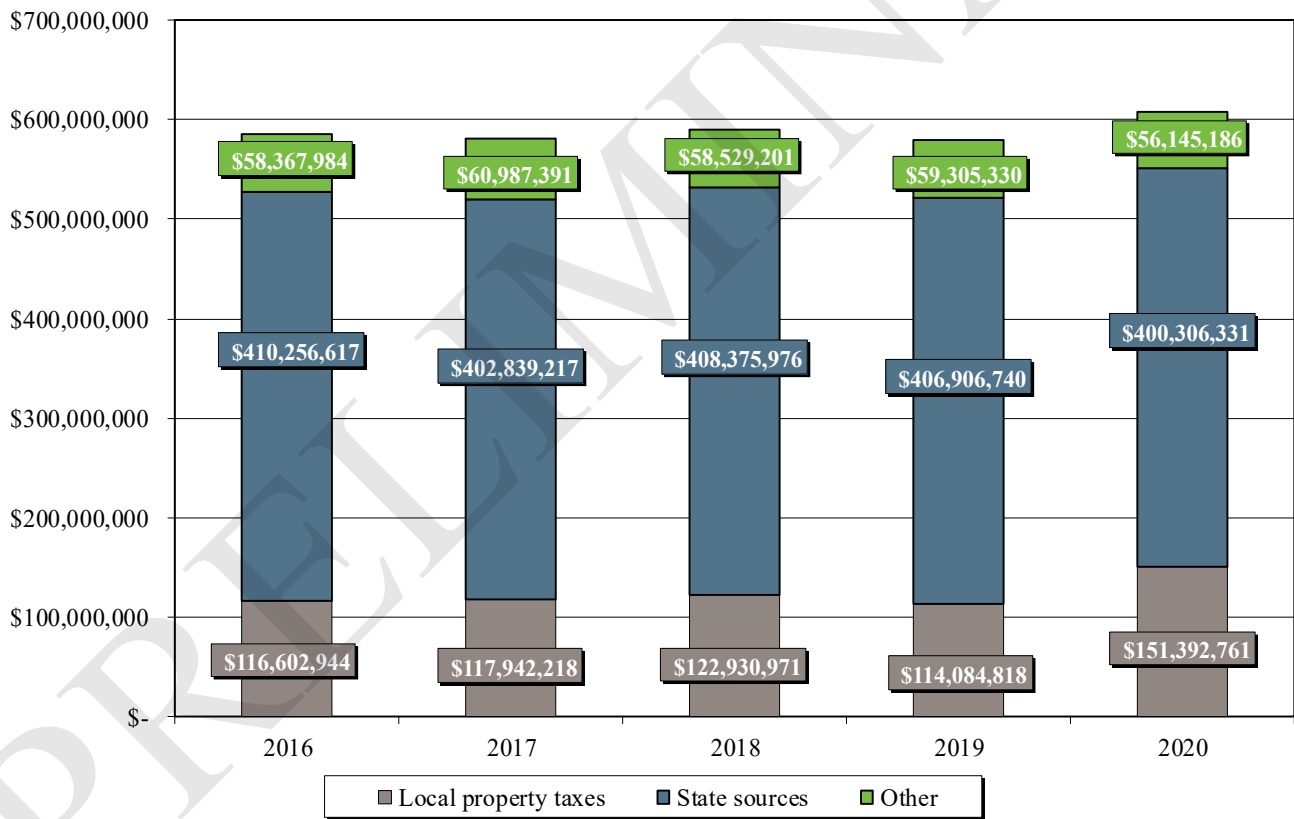
General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

For the Year Ended June 30,	2016	2017	2018	2019	2020
Local property taxes	\$ 116,602,944	\$ 117,942,218	\$ 122,930,971	\$ 114,084,818	\$ 151,392,761
State sources	410,256,617	402,839,217	408,375,976	406,906,740	400,306,331
Other	58,367,984	60,987,391	58,529,201	59,305,330	56,145,186
Total	\$ 585,227,545	\$ 581,768,826	\$ 589,836,148	\$ 580,296,888	\$ 607,844,278

Revenue increased from the prior year by \$27,547,390, or 4.75%, mainly due to an increase in property tax levy. General Fund revenues over the past five years are portrayed in the following graph.

General Fund Sources of Revenue

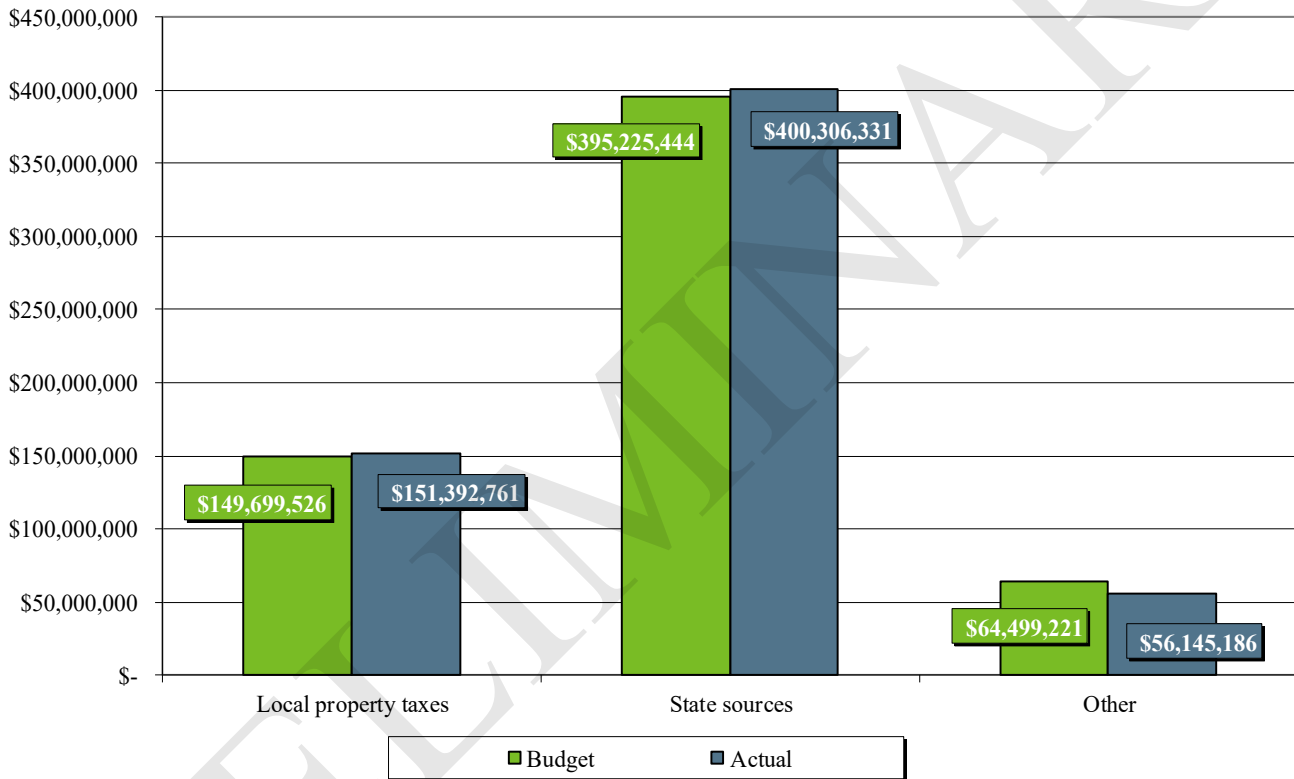


**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

General Fund Revenues - Budget and Actual

The District originally approved a revenue budget of \$630,329,784 and approved a revised revenue budget of \$609,424,191. Actual revenues of \$607,844,278 were \$1,579,913, or 0.3%, under budget.

**2020 General Fund Revenues
Budget and Actual**



Revenues from local property taxes were consistent with budgeted amounts. Revenue from other sources were \$8,354,035 under budget. This was a result of less revenue than anticipated for federal programs. Revenues from State sources were over budget by \$5,080,887 due to budgeting for a lower ADM that as higher than anticipated.

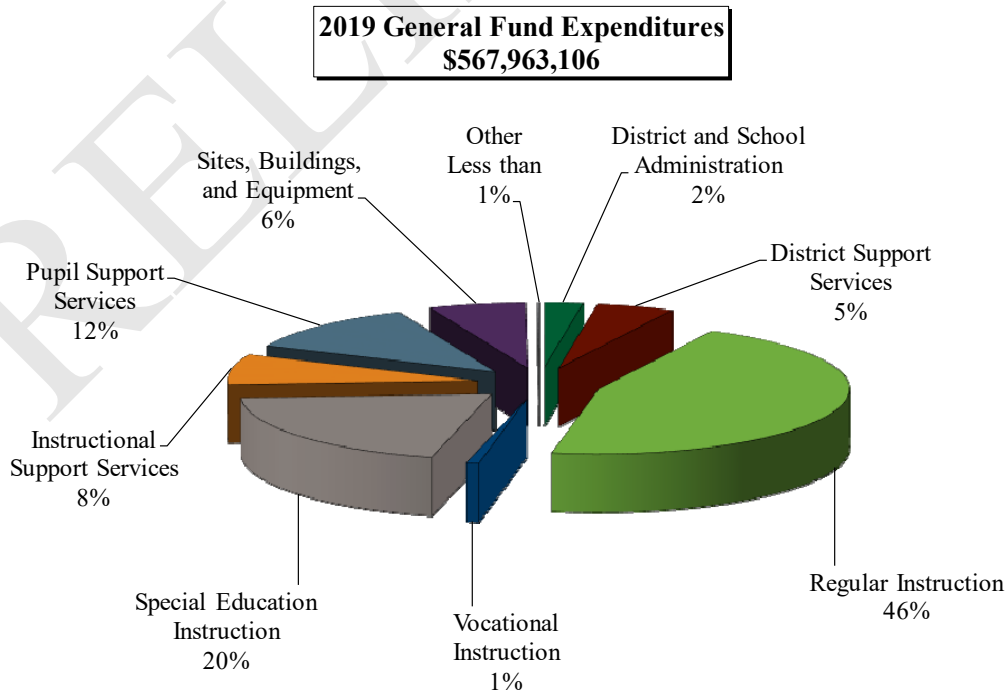
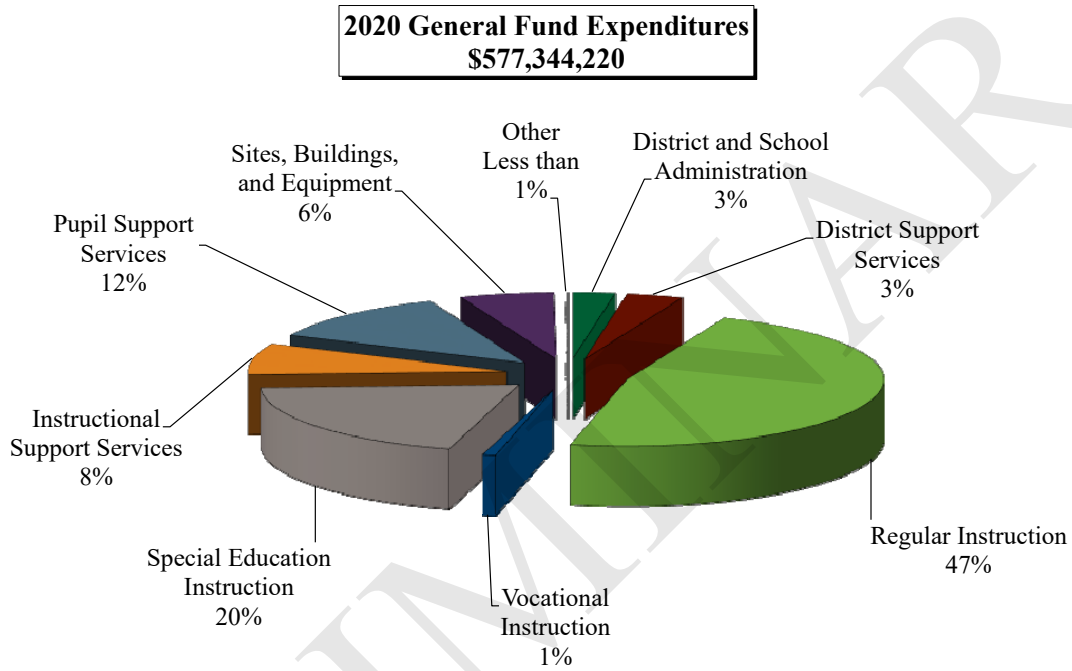
General Fund Expenditures

On the following page is the allocation of expenditures by program for the past two years. Overall, expenditures in the General Fund increased \$9,381,114 or 1.7%, from 2019 to 2020. Regular instruction increased by \$14,792,721 primarily due to an increase in step movements and contract settlements along with an increase in benefits. District support service decreased by \$8,026,225 mainly due to lower severance payments and indirect charges to other programs in 2020.

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

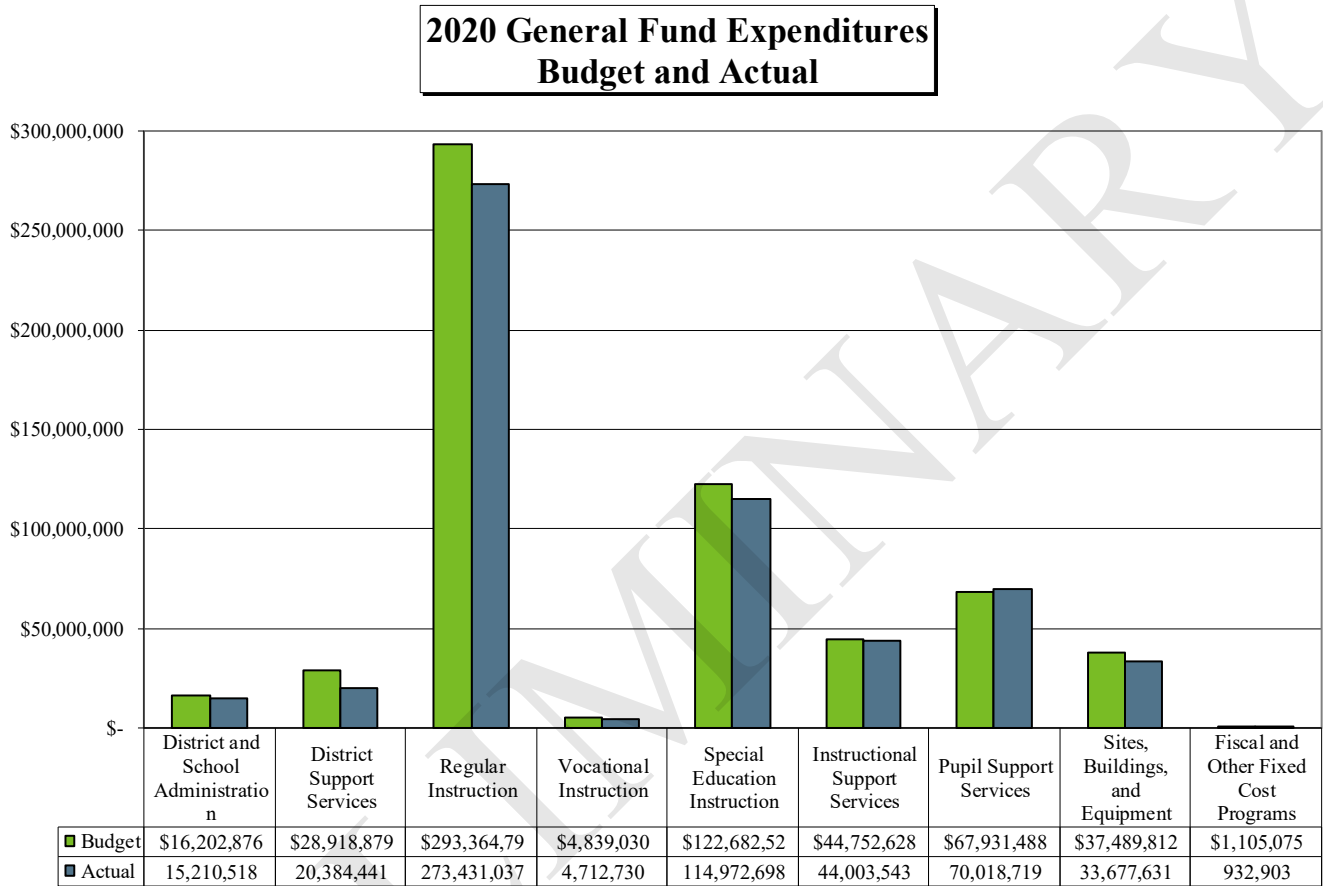
General Fund Expenditures (Continued)

The three instruction categories, regular, vocational, and special education comprise 68% of the total District expenditures for 2020.



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

General Fund Expenditures - Budget and Actual



Overall, General Fund expenditures of \$577,344,220 were \$39,942,886, or 6.5%, under budget. Regular instruction expenditures were under budget by \$19,933,759 due to less salary and benefit expense than anticipated and less funded projects as a result of COVID-19. District support services were under budget by \$8,534,438 due to budgeting conservatively for open positions and not budgeting for the indirect charges that were charged to other programs. Special education expenditures were under budget by \$7,709,824 due to open positions that were not filled as a result of the COVID-19 closures. Sites, buildings and equipment were under budget by \$3,812,181 due to the building closures during COVID-19.

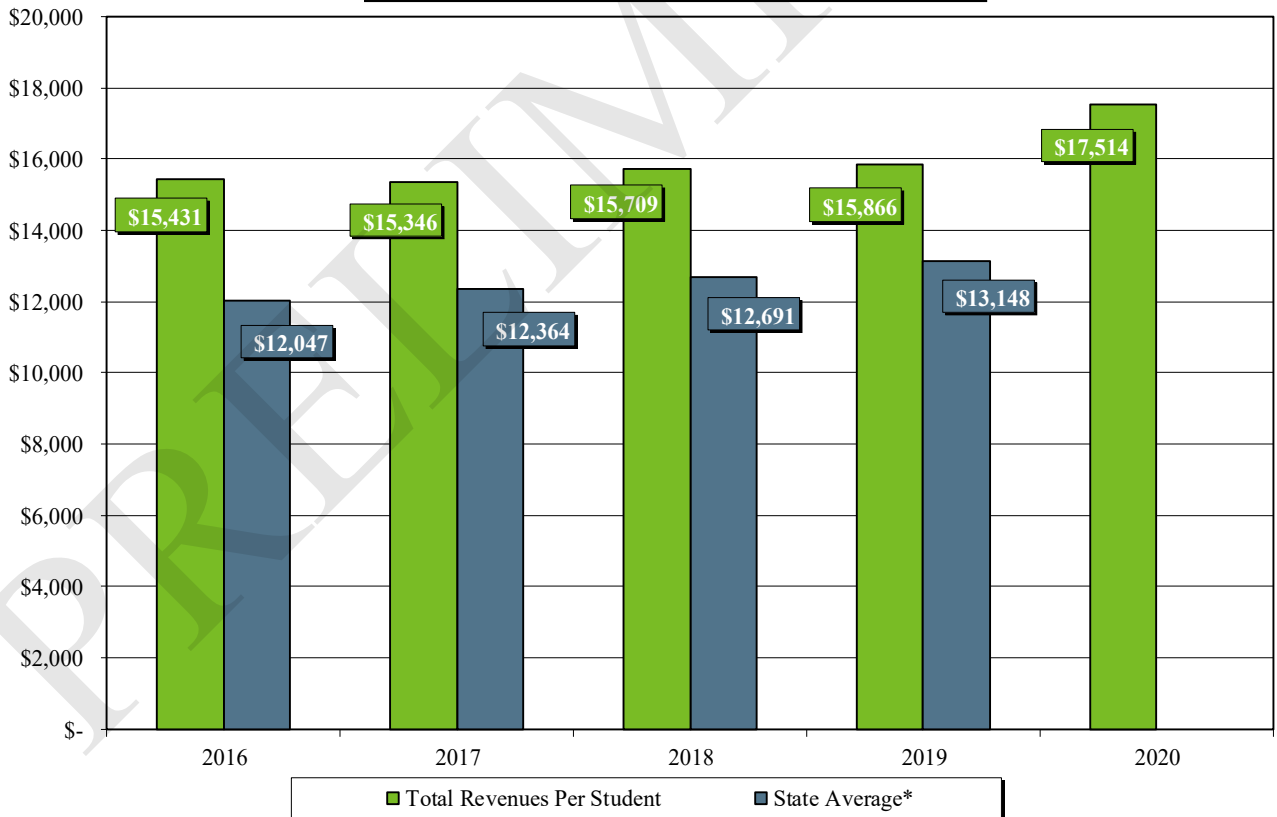
**Minneapolis Public Schools
Special District No. 1
Financial Analysis**

Revenues Per ADM Served

Special District No. 1	2016	2017	2018	2019	2020
General Fund	\$ 15,431	\$ 15,346	\$ 15,709	\$ 15,866	\$ 17,514
Food Service Fund	593	599	585	607	684
Community Service Fund	753	789	814	876	822
Building Construction Fund	48	30	33	171	104
Debt Service Fund	1,892	1,997	2,040	2,604	2,690
Post Employment Debt Service Fund	-	-	62	65	68
Total Revenues Per Student	\$ 18,717	\$ 18,761	\$ 19,243	\$ 20,189	\$ 21,882

State Average*	2016	2017	2018	2019	2020
General Fund	\$ 12,047	\$ 12,364	\$ 12,691	13,148	N/A
Food Service Fund	543	554	553	553	N/A
Community Service Fund	562	595	607	638	N/A
Building Construction Fund	108	66	55	112	N/A
Debt Service Fund	991	1,050	1,056	1,146	N/A
Total Revenues Per Student	\$ 14,251	\$ 14,629	\$ 14,962	\$ 15,597	-

General Fund Revenues Per ADM Served



* Source: *School District Profiles*; year 2020 is not yet available.

** Estimate as of November 18, 2020

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

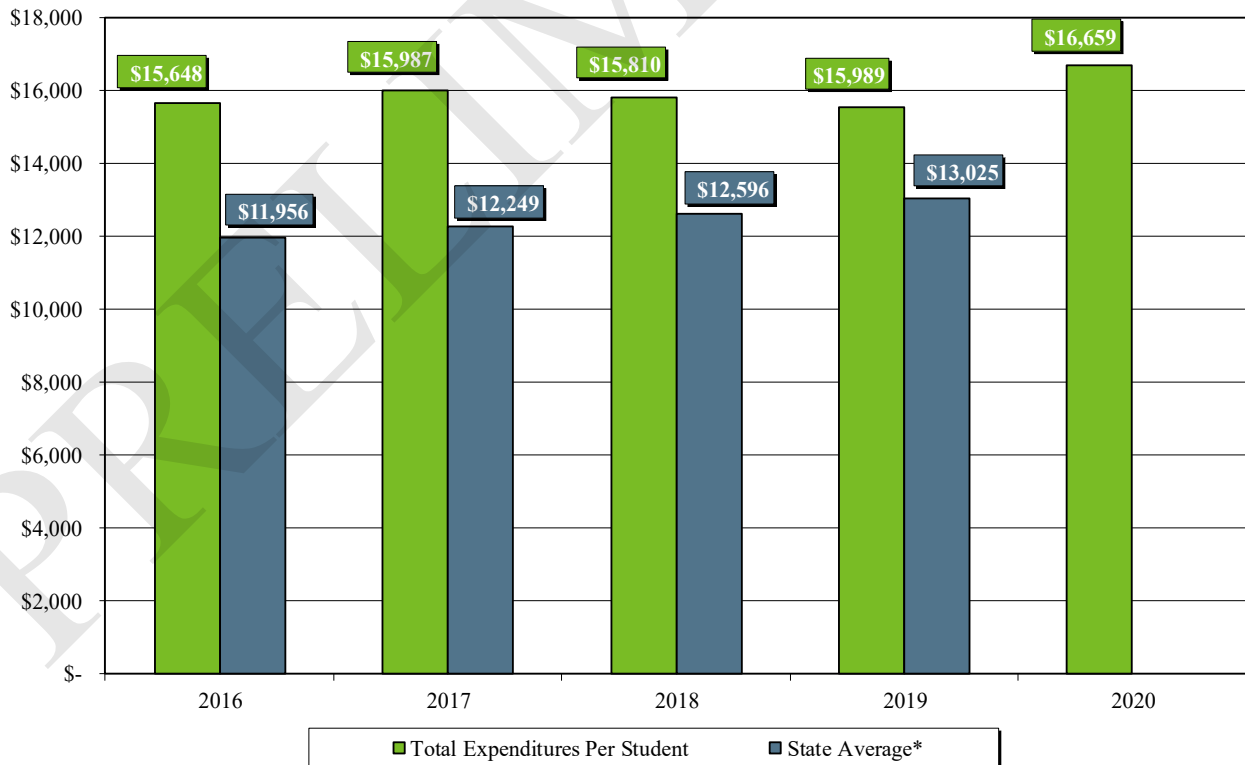
Expenditures Per ADM Served

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

Special District No. 1	2016	2017	2018	2019	2020
General Fund	\$ 15,648	\$ 15,987	\$ 15,810	\$ 15,527	\$ 16,659
Food Service Fund	581	585	578	622	662
Building Construction Fund	3,567	1,747	3,028	3,188	2,628
Community Service Fund	701	755	806	904	901
Debt Service Fund	2,324	2,063	2,056	2,357	2,563
Post Employment Debt Service Fund	-	-	60	62	65
Total Expenditures Per Student	\$ 22,821	\$ 21,137	\$ 22,338	\$ 22,660	\$ 23,479

State Average*	2016	2017	2018	2019	2020
General Fund	\$ 11,956	\$ 12,249	\$ 12,596	13,025	N/A
Food Service Fund	539	546	550	559	N/A
Community Service Fund	550	579	606	638	N/A
Building Construction Fund	1,405	1,785	1,799	1,642	N/A
Debt Service Fund	1,433	1,275	1,224	1,225	N/A
Total Expenditures Per Student	\$ 15,883	\$ 16,434	\$ 16,775	\$ 17,089	-

General Fund Expenditures Per ADM Served



* Source: *School District Profiles*; year 2020 is not yet available.

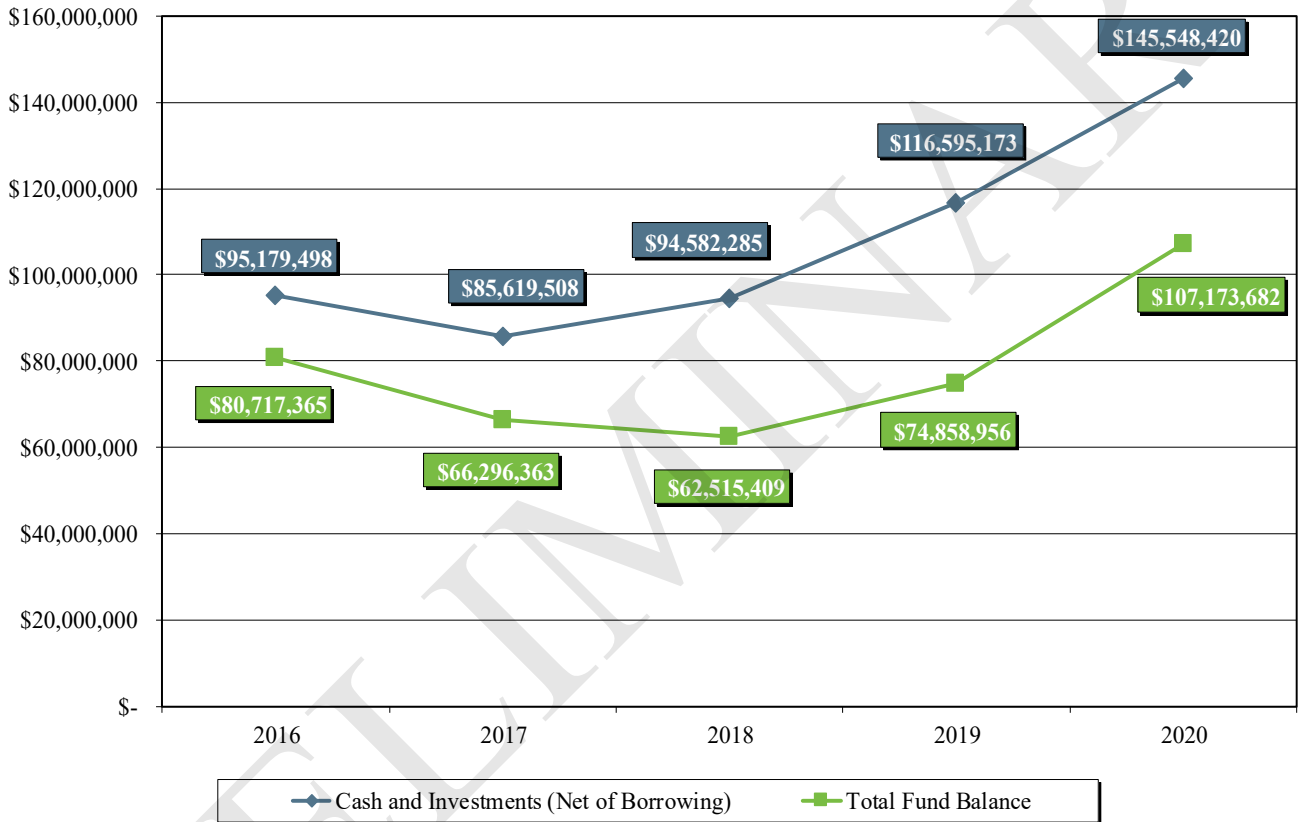
** Estimate as of November 18, 2020

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

General Fund Operations

As the following graph indicates, cash and investments increased \$28,953,247 from 2019 to 2020 and total fund balance increased \$32,314,726, or 43.2%.

General Fund Financial Position



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

General Fund Operations (Continued)

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

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	\$ 585,227,545	\$ 581,768,826	\$ 589,836,148	\$ 580,296,888	\$ 607,844,278
Expenditures	(606,384,716)	(605,929,828)	(593,617,102)	(567,963,106)	(577,344,220)
Excess of revenues over (under) expenditures	(21,157,171)	(24,161,002)	(3,780,954)	12,333,782	30,500,058
Proceeds from sale of equipment	8,310	-	-	9,765	18,765
Bond proceeds	5,920,000	6,440,000	-	-	1,100,000
Transfers in	16,000,000	3,300,000	-	-	-
Fund balance, July 1	79,946,226	80,717,365	66,296,363	62,515,409	74,858,956
Change in accounting principle	-	-	-	-	695,903
Fund Balance, June 30	\$ 80,717,365	\$ 66,296,363	\$ 62,515,409	\$ 74,858,956	\$ 107,173,682

Components of Fund Balance					
For the Year Ended June 30,	2016	2017	2018	2019	2020
Nonspendable	\$ 853,532	\$ 128,675	\$ 90,987	\$ 1,227,627	\$ 1,269,376
Restricted for					
Area learning center	-	-	808,181	910,645	1,421,247
Student activities	-	-	-	-	725,174
Achievement and integration	-	-	-	-	2,927,601
Gifted and talented	293,573	-	299,240	514,170	466,385
Health and safety	-	(161,640)	-	-	-
Basic skills extended time	-	-	-	1,235,892	2,792,710
Long-term facilities maintenance	-	(194,164)	-	(944)	160,765
Other	-	-	-	-	1,100,000
Capital projects	-	3,300,000	-	-	-
Assigned	25,350,565	21,455,251	29,671,886	32,138,104	43,737,399
Unassigned	54,219,695	41,748,347	31,645,115	38,833,462	52,573,025
Fund Balance, June 30	\$ 80,717,365	\$ 66,296,363	\$ 62,515,409	\$ 74,858,956	\$ 107,173,682

The chart above summarizes General Fund activity and financial position for each of the last five years. The unassigned fund balance represented 9.1% of 2020 actual expenditures and represented 8.6% of 2021 budgeted expenditures. The District's fund balance policy calls for a minimum unassigned balance of 8% of the annual budgeted expenditures for the following year.

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

Food Service Fund

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

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	\$ 22,486,250	\$ 22,589,754	\$ 21,897,237	\$ 22,062,833	\$ 23,694,428
Expenditures	(22,027,820)	(22,077,485)	(21,646,325)	(22,624,251)	(22,955,476)
Excess of revenues over (under) expenditures	458,430	512,269	250,912	(561,418)	738,952
Proceeds from sale of equipment	24,636	-	1,566	-	-
Bond proceeds	-	245,000	-	-	-
Fund balance, July 1	1,632,480	2,115,546	2,872,815	3,125,293	2,563,875
Fund Balance, June 30	\$ 2,115,546	\$ 2,872,815	\$ 3,125,293	\$ 2,563,875	\$ 3,302,827
Nonspendable	\$ 484,372	\$ 872,545	\$ 835,232	\$ 856,369	\$ 1,615,465
Restricted for other purposes	1,631,174	2,000,270	2,290,061	1,707,506	1,687,362
Total Fund Balance, June 30	\$ 2,115,546	\$ 2,872,815	\$ 3,125,293	\$ 2,563,875	\$ 3,302,827

Community Service Fund

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

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	\$ 28,570,581	\$ 29,825,786	\$ 30,506,573	\$ 31,853,780	\$ 28,471,098
Expenditures	(26,563,620)	(28,554,216)	(30,234,975)	(32,875,347)	(31,232,002)
Excess of revenues over (under) expenditures	2,006,961	1,271,570	271,598	(1,021,567)	(2,760,904)
Fund balance, July 1	5,426,039	7,433,000	8,704,570	8,976,168	7,954,601
Fund Balance, June 30	\$ 7,433,000	\$ 8,704,570	\$ 8,976,168	\$ 7,954,601	\$ 5,193,697
Restricted for					
School readiness	\$ 269,807	\$ 614,311	\$ 1,311,264	\$ 1,842,528	\$ 1,793,073
Adult basic education	1,297,774	1,278,467	1,263,834	854,424	702,422
Community education programs	4,391,533	5,549,459	5,212,717	4,197,002	1,949,764
ECFE	1,202,910	1,051,105	879,186	702,918	353,624
Other programs	270,976	211,228	309,167	357,729	394,814
Total Fund Balance, June 30	\$ 7,433,000	\$ 8,704,570	\$ 8,976,168	\$ 7,954,601	\$ 5,193,697

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

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

State Aid Appropriations

The formula allowance for 2020 General Education Aid was increased \$126 (2%) to \$6,438. For 2021, the formula allowance is set at \$6,567, which is an increase of \$129, or 2%.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

Funding provided includes Governor's Emergency Education Relief (GEER) funding totaling \$38.1 million to MDE to be used for technology and summer school programming. Elementary and Secondary School Emergency Relief (ESSER) funding totaling \$140.1 million is 90% allocated based on 2020 Title I, part A allocations and 9.5% is allocated as grants, with the remaining 0.5% available for administration. Child Nutrition Grants to States funding totaled \$160.3 million.

Compensatory Revenue

A percentage of the total compensatory revenue must be used for extended time activities. This percentage was 5.5% for 2020. For 2021 and later, this restriction was eliminated.

Special Education

Beginning for 2020, cross subsidy reduction aid was established as a new component of the special education aid formula. Cross subsidy reduction aid is a percentage of each district's initial cross subsidy for the prior fiscal year – 2.6% for 2020 and 6.43% for 2021 and later. The tuition rate paid by the resident school district for open enrolled special education students served by another district or charter school was reduced from 90% to 85% of unfunded costs for 2020 and will be reduced to 80% for 2021 and later.

For 2020, the special education aid cap was increased to the greater of the current cap or the sum of 56% of current year special education program costs plus 100% of current year special education transportation cost plus the tuition adjustment. For 2021 and later, the cap is eliminated.

Beginning in 2021, the pupil-driven portion of the initial special education aid formula will reflect 2018 data.

The special education hold harmless guarantee was limited to the sum of 90% in 2020, and will be limited to 85% in 2021, 80% in 2022, and 75% in 2023 and later, of current year special education program costs plus 100% of special transportation costs plus the tuition adjustment. The annual inflation adjustment used in the calculation of the hold harmless will be reduced by 0.2% per year from 4.4% in 2021 until the inflation adjustment reaches 2.0%.

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

Formula Adjustments in Response to COVID-19

Special education 2020 expenditures for employees and contracted services that would have been eligible for state aid in the absence of school closures due to COVID-19 must be included as eligible expenditures for the calculation of special education aid and for tuition billing, regardless of whether special education services were actually provided during the closure. State aid savings due to lower meal counts for regular school food service programs are reallocated on a per meal served basis to school providing summer food service meals between March 16, 2020 and June 30, 2020.

MDE is authorized to adjust reimbursement rate for career and technical expenditures to ensure the full expected amount of funding is distributed to schools. Expenditures for individuals who were essential personnel prior to March 13, 2020, and would have been eligible to generate revenue in the absence of school closures due to COVID-19 may be included as eligible expenditures for the calculation of revenue, regardless of whether services were actually provided during the closure.

MDE may adjust 2020 transportation expenditures used to determine future aid to ensure the full amount of transportation aid, and interdistrict desegregation or integration transportation aid is equitable amount districts.

MDE may recalculate the contact hour reimbursement rate for 2021 or otherwise adjust the formula to fully spend the estimated adult basic education aid.

Tests administered during the 2019-2020 school year are excluded from the three-year averages used in computing literacy incentive aid for fiscal years 2021, 2022, and 2023, and allows the commissions to adjust formula rates for these years to ensure total aid does not fall below the amount estimated in the February 2020 forecast.

School age care revenue for fiscal years 2020 and 2021 only, received for spending on or after March 18, 2020, continues at its approved amounts. Program funds may be reallocated consistent with the process and limitations of the fund transfer provisions in the education bill.

After-school enrichment revenue for fiscal years 2020 and 2021 only, received for spending on or after March 18, 2020, may be reallocated consistent with the process and limitations of the fund transfer provisions in the education bill.

Early childhood screening aid for fiscal years 2020 and 2021 will be calculated using the formula amounts set in statute for each age group and the 2018-2019 school year counts of children screened for each age group.

School districts may carry over any unspent achievement and integration funds from its approved budget for fiscal year 2020 into 2021. If spent for approved purposes in fiscal year 2021, the district would generate additional 2021 revenue over and above the regular formula limitations.

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

Operating Referendum and Local Option Revenue (LOR) Simplification

For fiscal year 2021, the annual recalculation of referendum allowances approved before 2014 based on the amount of LOR a district opts to receive is eliminated. \$300 per pupil unit of referendum revenue is transferred to LOR and the board approved referendum is eliminated. To ensure there is no change in revenue, aid, or levy for any district, a two-tiered levy for LOR is created; Tier 1 of LOR replaces Tier 1 of the referendum. The referendum cap is reduced by \$300 to neutralize the impact of the \$300 transfer to LOR.

Fund Transfers

Emergency Executive Order allows a school district, charter school, or cooperative unit to make operating fund and account transfers for fiscal years 2020 and 2021 for certain costs related to care, transportation, technology, and for certain community service and food service salaries and benefits. Amounts transferred must not be already assigned or encumbered by staff salary and benefits, or otherwise encumbered by federal law. Fund or account transfers must be neutral for the district and not affect aid or levy revenues. Board approval is required, and transfers must be made prior to the UFARS reporting deadline for the fiscal year.

Debt Service Relief

For fiscal year 2021, districts unable to make required debt service payments because of an anticipated delay in property tax receipts may apply for modified cash flow payments under Minnesota Statutes, section 127A.45. The Commissioner of Education may adjust the timing of IDEAS state aid payments.

Property Tax Bill

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. The credit is increased to 50% for taxes payable in 2020, 55% for taxes payable in 2021, 60% for taxes payable in 2022, and 70% for taxes payable in 2023 and thereafter. Estimated property tax relief totals \$10.9 million for pay 2020, \$18.2 million for pay 2021, and \$27.2 million for pay 2022.

Effective for 2021, the equalizing factor for tier 2 of the operating referendum was increased from \$510,000 to \$567,000. For 2021, property tax relief totals \$9.4 million.

Maximum Effort Loan Aid

Effective for 2018 through 2022, there will be payments of \$3.29 million per year made over a five year period to school districts with a maximum effort loan outstanding as of June 30, 2016 equal to the interest paid on the loan between December 1, 1990 and June 30, 2016. For districts with a capital loan outstanding as of June 30, 2017, the aid will be increased by the amount of interest paid on the loan between June 30, 2017 and June 30, 2021.

The aid must be used to reduce the current property tax levies or to finance a defeasance of future payments on outstanding bonded debt.

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

Safe Schools Supplemental Aid

Funding is contingent based on the 2019 closing balance and will be up to \$30 million. The aid was allocated among districts and charter schools based on total adjusted ADMs for 2018. The one-time aid was paid out on the October 30, 2019 IDEAS payment. Aid must be used for the same purposes as the safe schools levy.

Voluntary Prekindergarten (VPK)/School Readiness Plus

For 2020 and 2021 only, the 4,000 seats currently expiring after 2019 will continue to be funded.

Pension Bill

Augmentation has been eliminated for TRA members after December 31, 2017, and early retirement subsidies have been phased out.

Post-retirement cost of living adjustments (COLAs) have been reduced –

- 1) TRA – lowers the COLA from 2% to 1% for five years; then the rate will increase by 0.1% each year until it reaches 1.5%
- 2) PERA – the increase will be 50% of the increase for Social Security announced January 1, but not less than 0.5% or more than 1.5%
- 3) Defers commencement of COLA for early retirees

The rate of interest paid on refunds of employee contributions to former employees has been reduced from 4% to 3%. TRA required contributions have increased to 7.75% for employees effective for fiscal year 2024. Required employer contributions will increase 0.21% for fiscal year 2019 to fiscal year 2023 and 0.2% in fiscal year 2024 until a required contribution rate of 8.75% is reached.

Pension adjustment revenue will increase to match the required contribution increases.

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

Executive Summary

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

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

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

Accounting Standard Update – GASB Statement No. 87 – *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

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

Accounting Standard Update – GASB Statement No. 87 – *Leases* (Continued)

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

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

**Minneapolis Public Schools
Special School District No. 1
Minneapolis, Minnesota**

Financial Statements

June 30, 2020

PRELIMINARY



**Minneapolis Public Schools
Special School District No. 1
Minneapolis, Minnesota**

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**Minneapolis Public Schools
Special School District No. 1
Minneapolis, Minnesota**

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PRELIMINARY

**Minneapolis Public Schools
Special School District No. 1
Board of Education and Administration
June 30, 2020**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Kim Ellison	Chair	2023
Jenny Arneson	Vice Chair	2023
Josh Pauly	Clerk	2021
Kimberly Caprini	Treasurer	2023
KerryJo Felder	Director	2021
Siad Ali	Director	2023
Ira Jourdain	Director	2021
Nelson Inz	Director	2023
Bob Walser	Director	2021
Nathaniel Genene	Student Representative	2020
<u>Administration</u>		
Ed Graff	Superintendent	
Ibrahima Diop	Chief Financial Officer	
District Offices	Special School District No. 1 Minneapolis Public Schools 1250 West Broadway Avenue Minneapolis, MN 55411 (612) 668-0000	

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Minneapolis Public Schools, Special School District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic 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 in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Minneapolis Public Schools, Special School District No. 1, Minneapolis, Minnesota, as of June 30, 2020, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 84

As discussed in Note 12 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information 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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information identified in the Table of Contents is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Minneapolis, Minnesota
December 1, 2020

PRELIMINARY

(MD&A)

Client Provided Document

PRELIMINARY

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PRELIMINARY

BASIC FINANCIAL STATEMENTS

**Minneapolis Public Schools
Special School District No. 1
Statement of Net Position
June 30, 2020**

	Governmental Activities
Assets	
Cash and investments	\$ 500,220,212
Cash and investments held by trustee	32,190,590
Receivables	
Property taxes	125,123,483
Other governments	62,859,931
Other	1,545,668
Prepaid items	2,381,435
Inventory	1,759,841
Capital assets	
Land and construction in progress	143,829,791
Other capital asset, net of depreciation	621,178,668
Total assets	1,491,089,619
Deferred Outflows of Resources	
Deferred outflows related to OPEB	754,859
Deferred outflows related to pensions	573,647,301
Total deferred outflows of resources	574,402,160
Total assets and deferred outflows of resources	\$ 2,065,491,779
Liabilities	
Salaries and compensated absences payable	\$ 44,382,316
Accounts and contracts payable	19,647,050
Accrued interest	13,509,038
Due to other governmental units	1,945
Unearned revenue	1,499,366
Long-term liabilities	
Portion due within one year	69,634,185
Portion due in more than one year	1,482,453,089
Total liabilities	1,631,126,989
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	209,301,458
Deferred charge on refunding	456,479
Deferred inflows related to OPEB	30,634,016
Deferred inflows related to pensions	959,826,921
Total deferred inflows of resources	1,200,218,874
Net Position	
Net investment in capital assets	152,437,418
Restricted for	
General Fund state-mandated reserves	9,593,882
Food service	3,302,827
Community service	5,249,745
Debt service	29,428,416
Unrestricted	(965,866,372)
Total net position	(765,854,084)
Total liabilities, deferred inflows of resources, and net position	\$ 2,065,491,779

See notes to financial statements.

**Minneapolis Public Schools
Special School District No. 1
Statement of Activities
Year Ended June 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Administration	\$ 16,864,097	\$ -	\$ -	\$ -	\$ (16,864,097)
District support services	19,824,078	-	791,507	-	(19,032,571)
Elementary and secondary regular instruction	309,850,944	1,011,084	54,301,333	-	(254,538,527)
Vocational education instruction	5,068,728	-	705,378	-	(4,363,350)
Special education instruction	118,877,734	3,977,209	74,306,049	-	(40,594,476)
Instructional support services	45,584,282	70,734	2,113,083	-	(43,400,465)
Pupil support services	73,028,360	39,495	2,995,325	-	(69,993,540)
Sites and buildings	87,021,218	1,490,754	1,169,516	11,000,000	(73,360,948)
Fiscal and other fixed cost programs	932,903	-	-	-	(932,903)
Food service	22,816,700	2,144,670	21,532,065	-	860,035
Community education and services	31,916,490	6,531,527	16,310,397	-	(9,074,566)
Interest and fiscal charges on long-term debt	25,816,996	-	-	-	(25,816,996)
Total governmental activities	\$ 757,602,530	\$ 15,265,473	\$ 174,224,653	\$ 11,000,000	(557,112,404)
General revenues					
Taxes					
Property taxes, levied for general purposes					151,288,101
Property taxes, levied for community service					5,483,503
Property taxes, levied for debt service					80,690,817
State aid not restricted to specific purposes					311,877,276
Earnings on investments					10,449,655
Gain on sale of capital assets					18,765
Total general revenues					<u>559,808,117</u>
Change in net position					2,695,713
Net position - beginning					<u>(769,245,700)</u>
Change in accounting principle (see Note 12)					695,903
Net position - beginning, as restated					<u>(768,549,797)</u>
Net position - ending					<u>\$ (765,854,084)</u>

**Minneapolis Public Schools
Special School District No. 1
Balance Sheet - Governmental Funds
June 30, 2020**

	Major Funds				Total Governmental Funds
	General	Capital Project- Building Construction	Debt Service	Other Nonmajor Funds	
Assets					
Cash and investments	\$ 145,548,420	\$ 229,145,567	\$ 47,789,557	\$ 8,716,686	\$ 431,200,230
Cash and investments held by trustee	-	-	31,464,640	-	31,464,640
Receivables					
Current property taxes receivable	75,269,229	-	43,495,605	4,216,383	122,981,217
Delinquent property taxes receivable	1,319,640	-	758,333	64,293	2,142,266
Due from other Minnesota school districts	-	-	-	202	202
Due from Minnesota Department of Education	39,593,455	-	1,126,197	1,918,333	42,637,985
Due from Federal Government					
through Minnesota Department of Education	11,675,149	-	361,425	5,562,807	17,599,381
Due from Federal Government received directly	795,697	-	-	91,161	886,858
Due from other governmental units	1,735,505	-	-	-	1,735,505
Other receivables	1,150,373	-	4,602	82,449	1,237,424
Due from other funds	3,149,818	-	-	-	3,149,818
Prepaid items	1,125,000	917,052	-	-	2,042,052
Inventory	144,376	-	-	1,615,465	1,759,841
Total assets	\$ 281,506,662	\$ 230,062,619	\$ 125,000,359	\$ 22,267,779	\$ 658,837,419
Liabilities					
Salaries and compensated absences payable	\$ 37,197,429	\$ 401,300	\$ -	\$ 505,153	\$ 38,103,882
Payroll deductions and employer contributions payable	6,278,434	-	-	-	6,278,434
Accounts and contracts payable	9,564,204	8,784,991	-	1,293,645	19,642,840
Due to other governmental units	1,231	-	-	714	1,945
Due to other funds	-	-	-	3,149,818	3,149,818
Unearned revenue	989,639	-	-	509,727	1,499,366
Total liabilities	54,030,937	9,186,291	-	5,459,057	68,676,285
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	118,982,403	-	82,348,704	7,970,351	209,301,458
Unavailable revenue - delinquent property taxes	1,319,640	-	758,333	64,293	2,142,266
Total deferred inflows of resources	120,302,043	-	83,107,037	8,034,644	211,443,724
Fund Balances					
Nonspendable					
Prepaid items	1,125,000	917,052	-	-	2,042,052
Inventory	144,376	-	-	1,615,465	1,759,841
Restricted for					
Student activities	725,174	-	-	-	725,174
Area learning center	1,421,247	-	-	-	1,421,247
Graduation standards - gifted and talented	466,385	-	-	-	466,385
Achievement and integration	2,927,601	-	-	-	2,927,601
Long-term facilities maintenance	160,765	118,839,677	-	-	119,000,442
Community education programs	-	-	-	1,927,253	1,927,253
Basic skills extended time	2,792,710	-	-	-	2,792,710
Early childhood and family educations programs	-	-	-	353,624	353,624
School readiness	-	-	-	1,793,073	1,793,073
Adult basic education	-	-	-	702,422	702,422
QSCB/QZAB	-	-	28,264,217	-	28,264,217
Building construction	-	101,119,599	-	-	101,119,599
Other purposes	1,100,000	-	13,629,105	2,382,241	17,111,346
Assigned	43,737,399	-	-	-	43,737,399
Unassigned	52,573,025	-	-	-	52,573,025
Total fund balances	107,173,682	220,876,328	41,893,322	8,774,078	378,717,410
Total liabilities, deferred inflows of resources, and fund balances	\$ 281,506,662	\$ 230,062,619	\$ 125,000,359	\$ 22,267,779	\$ 658,837,419

**Minneapolis Public Schools
Special School District No. 1
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2020**

Total fund balances - governmental funds \$ 378,717,410

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Land	35,446,301
Construction in progress	108,383,490
Buildings and improvements, net of accumulated depreciation	610,657,549
Equipment, net of accumulated depreciation	10,521,119

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bond principal payable	(530,255,000)
Unamortized bond premiums and discounts	(78,155,890)
Certificate of participation payable	(228,975,000)
Net other post employment benefit liability	(38,368,418)
Net pension liability	(627,993,100)
Deferred charge on refunding	(456,479)

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred outflows related to pensions	573,647,301
Deferred inflows related to pensions	(959,826,921)

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to OPEB that are not recognized in the governmental funds.

Deferred outflows related to OPEB	754,859
Deferred inflows related to OPEB	(30,634,016)

Governmental funds do not report a liability for accrued interest on bonds and certificates of participation until due and payable.

(13,509,038)

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

2,142,266

Internal service funds are used by management to charge the cost of workers compensation and general liability insurance to individual funds, as well as severance benefits. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.

Internal service fund net position	22,049,483
------------------------------------	------------

Total net position - governmental activities

\$ (765,854,084)

**Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2020**

	Major Funds			Other Nonmajor Funds	Total Governmental Funds
	General	Capital Project- Building Construction	Debt Service		
Revenues					
Local sources					
Property taxes	\$ 151,392,761	\$ -	\$ 78,460,445	\$ 7,835,730	\$ 237,688,936
Earnings on investments	2,955,530	3,098,763	3,151,318	141,150	9,346,761
Other	13,248,430	512,338	421	7,222,573	20,983,762
Revenue from state sources	400,306,331	-	11,261,934	14,823,963	426,392,228
Revenue from federal sources	39,941,226	-	361,425	22,367,701	62,670,352
Sales and other conversion of assets	-	-	-	2,144,670	2,144,670
Total revenues	<u>607,844,278</u>	<u>3,611,101</u>	<u>93,235,543</u>	<u>54,535,787</u>	<u>759,226,709</u>
Expenditures					
Current					
Administration	15,207,556	-	-	-	15,207,556
District support services	20,382,355	-	-	-	20,382,355
Elementary and secondary regular instruction	273,196,985	-	-	-	273,196,985
Vocational education instruction	4,620,367	-	-	-	4,620,367
Special education instruction	114,972,663	-	-	-	114,972,663
Instructional support services	43,973,545	-	-	-	43,973,545
Pupil support services	69,626,854	-	-	-	69,626,854
Sites and buildings	33,229,408	31,908,189	-	-	65,137,597
Fiscal and other fixed cost programs	932,903	-	-	-	932,903
Food service	-	-	-	22,866,971	22,866,971
Community education and services	-	-	-	31,181,411	31,181,411
Capital outlay					
Administration	2,962	-	-	-	2,962
District support services	2,086	-	-	-	2,086
Elementary and secondary regular instruction	234,052	-	-	-	234,052
Vocational education instruction	92,363	-	-	-	92,363
Special education instruction	35	-	-	-	35
Instructional support services	29,998	-	-	-	29,998
Pupil support services	391,865	-	-	-	391,865
Sites and buildings	448,223	59,050,745	-	-	59,498,968
Food service	-	-	-	88,505	88,505
Community education and services	-	-	-	50,591	50,591
Debt service					
Principal	-	-	56,155,000	2,130,000	58,285,000
Interest and fiscal charges	-	108,478	32,680,877	130,500	32,919,855
Total expenditures	<u>577,344,220</u>	<u>91,067,412</u>	<u>88,835,877</u>	<u>56,447,978</u>	<u>813,695,487</u>
Excess of revenues over (under) expenditures	30,500,058	(87,456,311)	4,399,666	(1,912,191)	(54,468,778)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	18,765	-	-	-	18,765
Bond issuance	1,100,000	76,972,519	6,147,481	-	84,220,000
Bond premium	-	14,931,237	-	-	14,931,237
Payment to refunded bond escrow agent	-	-	(6,095,000)	-	(6,095,000)
Transfers in	-	-	3,197,268	-	3,197,268
Transfers out	-	(3,197,268)	-	-	(3,197,268)
Total other financing sources (uses)	<u>1,118,765</u>	<u>88,706,488</u>	<u>3,249,749</u>	<u>-</u>	<u>93,075,002</u>
Net change in fund balances	31,618,823	1,250,177	7,649,415	(1,912,191)	38,606,224
Fund Balances					
Beginning of year	<u>74,858,956</u>	<u>219,626,151</u>	<u>34,243,907</u>	<u>10,686,269</u>	<u>339,415,283</u>
Change in accounting principle (see Note 12)	695,903	-	-	-	695,903
Beginning of year restated	<u>75,554,859</u>	<u>219,626,151</u>	<u>34,243,907</u>	<u>10,686,269</u>	<u>340,111,186</u>
End of year	<u>\$ 107,173,682</u>	<u>\$ 220,876,328</u>	<u>\$ 41,893,322</u>	<u>\$ 8,774,078</u>	<u>\$ 378,717,410</u>

See notes to financial statements.

**Minneapolis Public Schools
Special School District No. 1
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2020**

Net change in fund balances - total governmental funds \$ 38,606,224

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital asset additions	50,722,884
Depreciation expense	(28,856,060)

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

General obligation bond proceeds	(54,835,000)
Long-term facility maintenance proceeds	(29,385,000)
Bond premium	(14,931,237)
Repayment of certificates of participation payable	21,625,000
Repayment of bond principal	36,660,000
Refunding payment to bond escrow agent	6,095,000
Change in accrued interest expense	(173,135)
Amortization of bond premiums and discounts	7,205,681
Amortization of deferred charge on refunding	70,313

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. 12,340,743

Net other post employment benefit liabilities are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (948,447)

Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.
Pension expense (41,274,738)

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. (226,515)

Change in net position - governmental activities \$ 2,695,713

**Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local sources				
Local property taxes	\$ 149,699,526	\$ 149,699,526	\$ 151,392,761	\$ 1,693,235
Earnings on investments	3,000,000	3,000,000	2,955,530	(44,470)
Other local and county revenues	24,657,339	12,504,532	13,088,878	584,346
Revenue from state sources	400,733,366	395,225,444	400,306,331	5,080,887
Revenue from federal sources	52,239,553	48,978,562	39,941,226	(9,037,336)
Sales and other conversion of assets	-	16,127	159,552	143,425
Total revenues	<u>630,329,784</u>	<u>609,424,191</u>	<u>607,844,278</u>	<u>(1,579,913)</u>
Expenditures				
Current				
Administration	26,576,081	16,198,254	15,207,556	(990,698)
District support services	32,856,419	28,913,243	20,382,355	(8,530,888)
Elementary and secondary regular instruction	290,652,895	293,087,040	273,196,985	(19,890,055)
Vocational education instruction	4,609,727	4,755,380	4,620,367	(135,013)
Special education instruction	124,954,707	122,682,486	114,972,663	(7,709,823)
Instructional support services	43,713,285	44,728,934	43,973,545	(755,389)
Pupil support services	66,330,666	66,114,148	69,626,854	3,512,706
Sites and buildings	37,040,062	36,875,899	33,229,408	(3,646,491)
Fiscal and other fixed cost programs	4,348,912	1,105,075	932,903	(172,172)
Capital outlay				
Administration	1,500	4,622	2,962	(1,660)
District support services	5,000	5,636	2,086	(3,550)
Elementary and secondary regular instruction	111,597	277,756	234,052	(43,704)
Vocational education instruction	-	83,650	92,363	8,713
Special education instruction	-	36	35	(1)
Instructional support services	-	23,694	29,998	6,304
Pupil support services	223,490	1,817,340	391,865	(1,425,475)
Sites and buildings	768,358	613,913	448,223	(165,690)
Total expenditures	<u>632,192,699</u>	<u>617,287,106</u>	<u>577,344,220</u>	<u>(39,942,886)</u>
Excess of revenues over (under) expenditures	<u>(1,862,915)</u>	<u>(7,862,915)</u>	30,500,058	<u>38,362,973</u>
Other Financing Sources				
Proceeds from sale of capital assets	-	-	18,765	18,765
Bond issuance	-	-	1,100,000	1,100,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>1,118,765</u>	<u>1,118,765</u>
Net change in fund balance	<u>\$ (1,862,915)</u>	<u>\$ (7,862,915)</u>	31,618,823	<u>\$ 39,481,738</u>
Fund Balance				
Beginning of Year, as Previously Stated			<u>74,858,956</u>	
Change in accounting principle (see Note 12)			<u>695,903</u>	
Beginning of year			<u>75,554,859</u>	
End of year			<u>\$ 107,173,682</u>	

See notes to financial statements.

**Minneapolis Public Schools
Special District No. 1
Statement of Net Position - Proprietary Fund
Internal Service Fund
June 30, 2020**

Assets

Current assets		
Cash and cash equivalents	\$	69,019,982
Cash with fiscal agent		725,950
Accounts receivable		308,244
Prepaid items		339,383
		339,383
Total assets	\$	70,393,559

Liabilities

Current liabilities		
Accounts payable	\$	4,210
Accrued severance		3,527,695
Loss and loss adjustment reserves		
Workers' compensation		2,408,829
Incurred but not reported reserves		
Accrued health insurance benefits		3,097,661
Total current liabilities		9,038,395
Noncurrent liabilities		
Loss and loss adjustment reserves		
Workers' compensation		3,290,714
Incurred but not reported reserves		
Workers' compensation		3,290,714
Property/casualty		975,000
Accrued severance		31,749,253
Total noncurrent liabilities		39,305,681
Total liabilities	\$	48,344,076

Net Position

Unrestricted		\$ 22,049,483
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**Minneapolis Public Schools
Special District No. 1
Statement of Revenues, Expenses, and Change in Fund
Net Position - Proprietary Fund
Internal Service Fund
Year Ended June 30, 2020**

Operating Revenue

Local sources - charges for services	\$ 68,931,280
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Operating Expenses

Loss and loss adjustments	644,696
Claims administration	4,221,936
Workers compensation and other benefits	340,762
Self-insured medical benefits	48,258,549
Severance	4,227,488
Total operating expenses	57,693,431

Operating loss	11,237,849
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Nonoperating Revenue

Earnings on investments	1,102,894
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Change in net position	12,340,743
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Net Position

Beginning of year	9,708,740
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End of year	\$ 22,049,483
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**Minneapolis Public Schools
Special District No. 1
Statement of Cash Flows - Proprietary Fund
Internal Service Fund
June 30, 2020**

Cash Flows - Operating Activities	
Receipts from premiums	\$ 68,744,761
Claims administration	(4,209,791)
Claims and severance benefits paid	(55,605,178)
Net cash flows - operating activities	<u>8,929,792</u>
Cash Flows - Investing Activities	
Investment earnings	<u>1,102,894</u>
Net change in cash and cash equivalents	10,032,686
Cash and Cash Equivalents (Including Cash with Fiscal Agent)	
Beginning of year	<u>59,713,246</u>
End of year	<u><u>\$ 69,745,932</u></u>
Reconciliation of Operating Loss to	
Net Cash Flows - Operating Activities	
Operating loss	\$ 11,237,849
Adjustments to reconcile operating loss to net cash flows - operating activities	
Accounts payable	(130,226)
Prepaid insurance	(21,331)
Accounts receivable	(186,519)
Loss and loss adjustment reserves	662,887
Accrued health insurance benefits	(280,447)
Accrued compensated absences	<u>(2,352,421)</u>
Net adjustments	<u>(2,308,057)</u>
Net cash flows - operating activities	<u><u>\$ 8,929,792</u></u>

**Minneapolis Public Schools
Special School District No. 1
Statement of Fiduciary Net Position
June 30, 2020**

	Other Post Employment Benefits Irrevocable Trust Fund
Assets	
Current	
Cash and investments	\$ 21,766,550
Net Position Restricted for Postemployment Benefits Other than Pensions	<u>\$ 21,766,550</u>

**Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2020**

	Other Post Employment Benefits Irrevocable Trust Fund
Additions	
Investment income	\$ 680,019
Change in net position	680,019
Net Position Restricted for Postemployment Benefits Other than Pensions	
Beginning of year	<u>21,086,531</u>
End of year	<u>\$ 21,766,550</u>

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Minneapolis Public Schools Special School District No. 1 have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America 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.

B. Reporting Entity

Minneapolis Public Schools 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 separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable. The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of service performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District. The District has no component units.

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. As of July 1, 2019, these accounts have been taken under board control and will not be reported separately.

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, except for the fiduciary fund. The fiduciary fund is only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

As of July 1, 2019, the student activity accounts of the District have been taken under board control and will not be reported separately.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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 Post Employment Benefits (OPEB) Irrevocable Trust Fund. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide statements.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services is the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges for service in the form of insurance premiums and early retirement incentive costs. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and 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. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and GAAP. *Minnesota Statutes* include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates. Compensated absences and claims and judgments are recognized when payment is due.

The District reports unearned revenue on its balance sheet and government-wide Statement of Net Position. Unearned revenues 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 the District has a legal claim to the resources, the unearned revenue is removed and revenue is recognized.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds:

The existence of the various District funds has been established by the 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 – This 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.

Capital Projects Fund – This 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 – This 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 property taxes.

Nonmajor Funds:

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

Community Service Special Revenue Fund – This 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.

Post Employment Benefits Debt Service – This fund is used to account for the accumulation of resources for and payment of MERF bonds used to finance the District's obligation related to this now defunct pension plan.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Proprietary Fund:

Internal Service Fund – This fund 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, health, and workers' compensation risks.
2. Accumulate and record the liability for accrued compensated absences (severance and vacation).

Fiduciary Fund:

The District has established an OPEB Irrevocable Trust Fund for other post employment benefit payments.

E. Budgeting

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

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

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

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

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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 a negative 2.5% of operating expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

F. Cash and Investments

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

District Governmental Funds

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

Cash and investment balances from all funds, with the exception of the investments related to the OPEB Irrevocable Trust Fund, are combined, and invested to the extent available in various securities as authorized by *Minnesota Statutes*. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

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

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

Cash and investments at June 30, 2020, were comprised of deposits, negotiable certificates of deposit, shares in the Minnesota School District Liquid Asset Fund (MSDLAF), government securities, FHLB, FHLMC, FNMA, and money market funds.

Minnesota Statutes require all deposits be protected by federal deposit insurance corporate surety bond or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments (Continued)

District Governmental Funds (Continued)

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

In accordance with GASB Statement No. 79, the various MSDLAF securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14 day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties.

OPEB Irrevocable Trust Fund

These funds represent investments administered by the District's OPEB Irrevocable Trust Fund investment managers. As of June 30, 2020, they were comprised of mutual funds. The District's investment policy extends to the OPEB Irrevocable Trust Fund investments.

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

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

H. Inventory

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

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

J. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Hennepin County is the collecting agency for the levy and remits the collections to the District three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

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

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

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2019, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in the fiscal year 2020. The remaining portion of the levy will be recognized when measurable and available.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. A deferred outflows of resources related to pensions is recorded in the government-wide Statement of Net Position for various estimate differences that will be amortized and recognized over future years.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has five types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. The third item is a deferred charge on refunding and is reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The fourth item is a deferred inflows of resources related to pensions and is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. The fifth item is deferred inflows of resources related to OPEB for various estimate differences related to this liability that will be amortized and recognized in future years.

L. 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 acquisition 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 estimated useful lives as listed on the following page.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

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, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

M. Long-Term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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.

N. Compensated Absences

The District's employee vacation and sick leave policies grant to certain groups of employees, if certain conditions are met (see Note 11), 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 3.5% annually, and (2) discount rate of 3.25%.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

P. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance and is self-insured for some risks as indicated in Note 10. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2020.

Q. 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".

R. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources 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 on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

S. 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 Fund Balances – Portions of fund balance related to prepaids, inventory, long-term receivables, and corpus on any permanent fund.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Balance (Continued)

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

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

Assigned Fund Balances – These consist 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 Fund Balances – These funds are 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.

T. Use of Estimates

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

U. Postemployment Benefits Other than Pensions (OPEB) – Trust Fund

Information about the fiduciary net position of the District and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments, and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 2 – 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 District's Board.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows *Minnesota Statutes* for deposits. *Minnesota Statutes* require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository. As of June 30, 2020, the District's deposits with a bank balance of \$1,239,711 were not exposed to custodial credit risk because the balances were fully insured by FDIC or secured by pledged collateral or letters of credit.

As of June 30, 2020, the book value of the District's deposits is \$1,082,156.

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 rated "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 Financial Statements**

NOTE 2 – 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.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of an investment in a single issuer. 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.

Custodial Credit Risk

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. GASB 40 requires disclosure of all uninsured investment securities purchased by the District or held as collateral on deposits or investments that are not registered in the name of the Minneapolis Public Schools, and held by the counterparty to the investment transactions. The District's investments held by one broker-dealer were insured by SIPC or other supplemental insurance as of June 30, 2020. However, each investment brokerage firm may have a limit to their supplemental insurance and because of the size of the District's portfolio in relation to the brokerage firm's excess SIPC coverage limits, the portion of the supplemental policy applicable to the District's portfolio is unknown.

Interest Rate Risk

This is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates. The District's investment policy states that investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, taking into account constraints on risk and other criteria requirements. As of June 30, 2020, the market values, duration, and percent allocation of the District's investments were as listed below.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturities (in Years)</u>	<u>Percent Allocation</u>	<u>Credit Rating</u>
Pooled				
MSDLAF+ Liquid Class	\$ 79,705,769	N/A	17.38%	AAAm
MSDLAF+ Max Class	244,572,964	N/A	53.32%	AAAm
Federal Home Loan Bank (FHLB)	5,691,189	0.95	1.24%	AA+
Federal Farm Credit Bank (FFCB)	7,339,555	1.74	1.60%	AA+
U.S. Treasury Securities	31,477,966	0.91	6.86%	N/A
Fannie Mae	8,576,344	0.84	1.87%	AA+
Freddie Mac	18,659,234	1.09	4.07%	AA+
Mortgage Backed Securities	4,483,913	2.89	0.98%	AA+
Commercial Paper Pool	43,637,230	N/A	9.51%	N/A
Commercial Paper	14,537,582	0.11	3.17%	A-1
Total pooled investments	<u>458,681,746</u>		<u>100.00%</u>	
Non-pooled				
Cash with fiscal agent				
Cash held by trustee	3,926,373	N/A	12.20%	N/A
U.S. Treasury Securities	28,264,217	5.38	87.80%	N/A
Total cash with fiscal agent	<u>32,190,590</u>		<u>100.00%</u>	
Health insurance				
Cash/money market	<u>40,456,310</u>	NA	<u>100.00%</u>	N/A
OPEB Trust Fund				
Mutual Funds	21,702,218	N/A	99.70%	N/A
Cash/Money Market Funds	64,332	N/A	0.30%	N/A
Total OPEB Trust Fund	<u>21,766,550</u>		<u>100.00%</u>	
Total non-pooled investments	<u>94,413,450</u>			
Total investments	<u>\$ 553,095,196</u>			

The District has the following recurring fair value measurements as of June 30, 2020:

- Pooled investments of \$31,477,966 are valued using Level 1 inputs
- Pooled investments of \$59,287,817 are valued using Level 2 inputs
- Nonpooled OPEB investments of \$21,766,550 are valued using a matrix pricing model (Level 2 inputs)

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of total deposits and investments:

Deposits (Note 2.A.)	\$ 1,082,156
Investments - pooled (Note 2.B.)	458,681,746
Investments - non-pooled (Note 2.B.)	<u>94,413,450</u>
Total deposits and investments	<u>\$ 554,177,352</u>

Deposits and investments are presented in the June 30, 2020, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 500,220,212
Cash with fiscal agent	32,190,590
Statement of Fiduciary Net Position	
Cash and investments	<u>21,766,550</u>
Total deposits and investments	<u>\$ 554,177,352</u>

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 35,446,301	\$ -	\$ -	\$ 35,446,301
Construction in progress	155,000,872	42,340,052	88,957,434	108,383,490
Total capital assets not being depreciated	<u>190,447,173</u>	<u>42,340,052</u>	<u>88,957,434</u>	<u>143,829,791</u>
Capital assets being depreciated				
Buildings	1,181,720,753	96,878,536	-	1,278,599,289
Machinery and equipment	50,308,321	461,730	228,638	50,541,413
Total capital assets being depreciated	<u>1,232,029,074</u>	<u>97,340,266</u>	<u>228,638</u>	<u>1,329,140,702</u>
Less accumulated depreciation for				
Buildings	641,804,175	26,137,565	-	667,941,740
Machinery and equipment	37,530,437	2,718,495	228,638	40,020,294
Total accumulated depreciation	<u>679,334,612</u>	<u>28,856,060</u>	<u>228,638</u>	<u>707,962,034</u>
Total capital assets being depreciated, net	<u>552,694,462</u>	<u>68,484,206</u>	<u>-</u>	<u>621,178,668</u>
Governmental activities, capital assets net	<u>\$ 743,141,635</u>	<u>\$ 110,824,258</u>	<u>\$ 88,957,434</u>	<u>\$ 765,008,459</u>

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of \$28,856,060 for the year ended June 30, 2020, was charged to the following governmental functions:

Administration	\$ 87,559
District support services	126,368
Regular instruction	12,036,299
Vocational education instruction	41,114
Special education instruction	258,536
Community education	30,376
Instructional support services	52,328
Pupil support services	1,636,794
Food service	251,810
Sites and buildings	<u>14,334,876</u>
Total depreciation expense, governmental activities	<u><u>\$ 28,856,060</u></u>

NOTE 4 – 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 5 – LONG-TERM LIABILITIES

The District has issued general obligation school building bonds, alternative facilities bonds, and long-term facilities maintenance bonds 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 Financial Statements**

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Maturity Date	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds, including refunding bonds						
	12/15/09	1.15%	\$ 17,200,000	2/15/2025	\$ 17,200,000	\$ -
	12/28/10	5.13%	19,785,000	12/15/2025	19,785,000	-
	12/28/10	2.00-4.00%	7,750,000	2/1/2021	420,000	420,000
	12/01/11	3.80%	4,260,000	12/15/2025	4,260,000	-
	12/18/12	2.00-3.00%	21,220,000	2/1/2033	12,840,000	1,030,000
	12/18/12	2.00-3.00%	18,550,000	2/1/2033	12,575,000	960,000
	12/18/12	3.00-4.00%	9,285,000	2/1/2022	2,360,000	1,165,000
	12/18/12	2.00%	16,530,000	2/1/2022	4,395,000	2,175,000
	12/04/13	3.00-4.00%	20,525,000	2/1/2029	11,310,000	1,200,000
	12/04/13	4.00-5.00%	38,090,000	2/1/2034	30,080,000	1,600,000
	12/23/14	2.00-3.00%	21,840,000	2/1/2030	12,695,000	1,835,000
	12/23/14	3.00-4.00%	45,270,000	2/1/2030	32,940,000	2,805,000
	12/23/14	2.00-5.00%	11,300,000	2/1/2023	4,740,000	1,500,000
	12/29/15	2.34%	21,275,000	2/1/2031	13,840,000	2,070,000
	12/29/15	2.51%	34,755,000	2/1/2031	27,385,000	2,060,000
	12/29/15	1.69%	10,830,000	2/1/2024	5,985,000	1,380,000
	12/22/16	5.00%	41,905,000	2/1/2037	35,390,000	2,585,000
	12/22/16	5.00%	51,910,000	2/1/2035	46,600,000	2,160,000
	12/06/17	4.00-5.00%	28,895,000	2/1/2033	23,820,000	2,845,000
	12/06/17	4.00-5.00%	51,565,000	2/1/2033	46,655,000	2,590,000
	12/05/18	4.00-5.00%	40,395,000	2/1/2039	37,510,000	3,340,000
	12/05/18	4.00-5.00%	51,275,000	2/1/2038	49,965,000	1,775,000
	12/01/19	5.00%	42,735,000	2/1/2040	42,735,000	3,420,000
	12/01/19	5.00%	29,385,000	2/1/2038	29,385,000	910,000
	12/01/19	5.00%	5,385,000	2/1/2027	5,385,000	960,000
Total			<u>661,915,000</u>		<u>530,255,000</u>	<u>40,785,000</u>
Certificates of participation						
	12/28/10	6.50%	12,990,000	4/1/2036	12,990,000	-
	12/28/10	1.40-6.5%	28,235,000	4/1/2030	16,965,000	1,425,000
	12/01/11	2.00-3.20%	19,705,000	2/1/2023	6,015,000	1,950,000
	12/04/13	5.00%	41,125,000	2/1/2021	2,685,000	2,685,000
	12/23/14	4.00-5.00%	125,570,000	2/1/2030	94,560,000	7,525,000
	12/29/15	2.67%	44,475,000	2/1/2031	34,560,000	2,700,000
	12/22/16	5.00%	22,025,000	2/1/2032	19,435,000	1,220,000
	12/06/17	4.00-5.00%	38,565,000	2/1/2033	35,050,000	2,025,000
	12/01/19	5.00%	6,715,000	2/1/2035	6,715,000	285,000
Total			<u>339,405,000</u>		<u>228,975,000</u>	<u>19,815,000</u>
Bond premium					78,155,890	-
Self insurance liability and compensated absences					<u>48,339,866</u>	<u>9,034,185</u>
Total long-term liabilities					<u>\$ 885,725,756</u>	<u>\$ 69,634,185</u>

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Year Ending June 30,	Certificates of Participation Payable		G.O. Bonds	
	Principal	Interest	Principal	Interest
2021	\$ 19,815,000	\$ 10,593,078	\$ 40,785,000	\$ 23,111,783
2022	17,895,000	9,652,830	41,295,000	20,915,624
2023	18,685,000	8,846,455	38,385,000	19,093,724
2024	17,395,000	7,997,275	36,255,000	17,365,774
2025	18,130,000	7,217,375	34,510,000	15,782,624
2026-2030	103,680,000	22,408,550	194,660,000	51,984,893
2031-2035	31,010,000	4,451,550	106,690,000	21,842,100
2036-2040	2,365,000	153,725	37,675,000	3,630,500
Total	<u>\$ 228,975,000</u>	<u>\$ 71,320,838</u>	<u>\$ 530,255,000</u>	<u>\$ 173,727,022</u>

C. Description of Long-Term Liabilities

General Obligation School Building Bonds

On December 19, 2019, the District issued \$42,735,000 of General Obligation School Building Bonds, Series 2019A. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

On December 19, 2019, the District issued \$29,385,000 of General Obligation Long-Term Facilities Maintenance Bonds, Series 2019B. The proceeds of this issue were deposited into the construction fund to finance certain long-term facilities maintenance projects of the District.

On December 19, 2019, the District issued \$6,715,000 of Full-Term Certificates of Participation, Series 2019C. The proceeds of this issue were deposited into the Debt Service Fund.

On December 19, 2019, the District issued \$5,385,000 of General Obligation Refunding Bonds, Series 2019D. The proceeds of this issue were deposited in the debt service fund and used on February 1, 2020 to refund, in advance of their stated maturities, the remaining fiscal 2021 through 2027 maturities of the District's General Obligation Bond, 2011C Series, totaling \$6,095,000. After the current refunding, the District assumes full debt service of the principal and interest payments on the 2019D issue. The refunding reduced the District's total future debt service payments for the series of bonds by \$400,675 and resulted in a preset value savings of approximately \$385,166.

Self Insurance Liability and Compensated Absences

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

See Notes 10 and 11 for detailed information on the District's Self Insurance Plan and Compensated Absences.

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2020</u>
Governmental activities				
Bonds payable				
General obligation bonds	\$ 495,505,000	\$ 77,505,000	\$ (42,755,000)	\$ 530,255,000
Bond premium	70,897,597	14,931,237	(7,672,944)	78,155,890
Certificates of participation payable	243,885,000	6,715,000	(21,625,000)	228,975,000
Self insurance reserves and compensated absences	<u>50,309,847</u>	<u>-</u>	<u>(1,969,981)</u>	<u>48,339,866</u>
 Total governmental activity long-term liabilities	 <u>\$ 860,597,444</u>	 <u>\$ 99,151,237</u>	 <u>\$ (74,022,925)</u>	 <u>\$ 885,725,756</u>

The internal service fund typically liquidates the liability related to self-insurance and compensated absences.

NOTE 6 – FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. Administration also has the authority to internally assign portions of fund balance for specific purposes. Other amounts are identified as nonspendable as disbursement has been made for a good or service that will benefit future periods.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 6 – FUND BALANCES (CONTINUED)

Restricted and nonspendable/assigned fund balances at June 30, 2020, are as follows:

	Restricted	Nonspendable/ Assigned
General Fund		
Nonspendable for prepaid items	\$ -	\$ 1,125,000
Nonspendable for inventory	-	144,376
Restricted for student activities	725,174	-
Restricted for long-term facilities maintenance	160,765	-
Restricted for basic skills extended time	2,792,710	-
Restricted for area learning center	1,421,247	-
Restricted for gifted and talented	466,385	-
Restricted for achievement and integration	2,927,601	-
Restricted for other purposes	1,100,000	-
Assigned for referendum - class size	-	27,536,310
Assigned for alternative compensation	-	1,516,785
Assigned for new ESC debt payments	-	1,064,335
Assigned for site carryover	-	6,119,969
Assigned for contingency	-	4,000,000
Assigned for comprehensive district design	-	3,500,000
Total General Fund	9,593,882	45,006,775
Special Revenue Funds		
Food Service Fund		
Restricted for other purposes	803,193	-
Nonspendable for inventory	-	1,615,465
Community Service Fund		
Restricted for school readiness	1,793,073	-
Restricted for adult basic education	702,422	-
Restricted for community education programs	1,927,253	-
Restricted for early childhood and family	353,624	-
Restricted for other purposes	1,301,494	-
Total Special Revenue Funds	6,881,059	1,615,465
Capital Projects - Building Construction Fund		
Nonspendable for prepaid items	-	917,052
Restricted for long-term facilities maintenance	118,839,677	-
Restricted for building construction	101,119,709	-
Total Building Construction Fund	219,959,386	917,052
Debt Service Fund		
Restricted for QSCB/QZAB	28,264,217	-
Restricted for other purposes	13,629,105	-
Total Debt Service Fund	41,893,322	-
Post Employment Benefits Debt Service Fund		
Restricted for other purposes	277,554	-
Total all funds	\$ 278,605,203	\$ 47,539,292

Restricted/Reserved for Student Activities – This balance represents available resources to be used for the extracurricular activity funds raised by the students.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 6 – FUND BALANCES (CONTINUED)

Restricted for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

Restricted for Gifted and Talented – The part of General Education Aid revenue for the gifted and talented program that is unspent at year end must be restricted in this Balance Sheet account

Restricted/Reserved for Achievement and Integration Revenue – This balance represents unspent resources available from the achievement and integration program.

Restricted/Reserved for Basic Skills Extended Time – This balance represents resources available for the basic skills extended time uses listed in *Minnesota Statutes* 126C.15, subd. 1.

Restricted for School Readiness Programs – The fund balance restriction represents accumulated resources available to provide school readiness programming (*Minnesota Statutes* 124D.16).

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

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

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

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

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

Restricted for QSCB/QZAB – The fund balance restriction represents resources required by agreement to be segregated for future payments of Qualified Zone Academy Bond (QZAB) or Qualified School Construction Bonds (QSCB) debt instruments. These resources are held by the District and will pay off the debt at maturity.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 6 – FUND BALANCES (CONTINUED)

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 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association

The District participates in various pension plans, total pension expense for the year ended June 30, 2020, was \$87,711,763. The components of pension expense are noted in the following plan summaries.

The General Fund typically liquidates the Liability related to the pensions.

A. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with *Minnesota Statutes*, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Educators employed in Minnesota's public elementary and secondary schools, charter schools and certain TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

B. Benefits Provided

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

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

Tier I Benefits

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

**Minneapolis Public Schools
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Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier I Benefits (Continued)

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3% per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006, and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under *Minnesota Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

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

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

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2018, June 30, 2019, and June 30, 2020, were:

	June 30, 2018		June 30, 2019		June 30, 2020	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.71%	11.0%	11.92%
Coordinated	7.5%	7.5%	7.5%	7.71%	7.5%	7.92%

In an agreement related to the merger of the Minneapolis Teachers Retirement Association, the District has agreed to pay an additional 3.64% for a total employer contribution of 11.56%.

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations. Amounts are reported in thousands.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 403,300
Deduct employer contributions not related to future contribution efforts	(688)
Deduct TRA's contributions not included in allocation	<u>(486)</u>
Total employer contributions	402,126
Total non-employer contributions	<u>35,588</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Pension Allocations</i>	<u><u>\$ 437,714</u></u>

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2019
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% thereafter
Projected salary increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

Mortality Assumption

Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of set rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.5 %	5.10 %
International equity	17.5	5.30
Private markets	25.0	5.90
Fixed income	20.0	0.75
Unallocated cash	2.0	0.00
Total	<u>100 %</u>	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience," "Changes of Assumptions," and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of five years as required by GASB 68.

Changes in actuarial assumptions since the 2018 valuation:

- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

On June 30, 2020, the District reported a liability of \$433,790,373 for its proportionate share of the net pension liability. In addition, the net pension liability allocated to the district under a lump sum direct aid payment related to the District's merger into the fund is \$32,762,468 for a total liability allocated to the District of \$466,552,841. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 6.8056% at the end of the measurement period and 7.3531% for the beginning of the year. An additional 0.5140% was allocated at June 30, 2019, under the direct aid payment agreement.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid and total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of net pension liability	\$ 466,552,841
State's proportionate share of the net pension liability associated with the District	38,392,377

For the year ended June 30, 2020, the District recognized pension expense of \$77,819,181. It recognized \$2,918,277 as an increase to this pension expense for the support provided by direct aid.

On June 30, 2020, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 73,840	\$ 12,259,350
Net difference between projected and actual earnings on plan investments	-	40,236,135
Changes of assumptions	491,434,946	675,211,273
Changes in proportion	21,817,985	189,237,648
Contributions to TRA subsequent to the measurement date	<u>30,590,795</u>	<u>-</u>
Total	<u>\$ 543,917,566</u>	<u>\$ 916,944,406</u>

The \$30,590,795 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2021	\$ 20,280,827
2022	(15,495,765)
2023	(246,592,690)
2024	(154,879,795)
2025	(6,930,212)
Total	<u>\$ (403,617,635)</u>

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) and 1 percent higher (8.5%) than the current rate.

	District proportionate share of NPL		
	1% decrease (6.50%)	Current (7.50%)	1% increase (8.50%)
Standard share	\$ 691,567,929	\$ 433,790,373	\$ 221,256,602
Direct aid share	52,231,385	32,762,468	16,710,633

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

H. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000, or by calling (651) 296-2409 or (800) 657-3669.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association

A. Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1 the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were \$13,417,426. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2020, the District reported a liability of \$161,440,259 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$5,017,615. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 2.9200% at the end of the measurement period and 2.6337% for the beginning of the period.

District's proportionate share of net pension liability	\$ 161,440,259
State of Minnesota's proportionate share of the net pension liability associated with the District	<u>5,017,615</u>
Total	<u><u>\$ 166,457,874</u></u>

For the year ended June 30, 2020, the District recognized pension expense of \$9,892,582 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional \$375,772 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

At June 30, 2020, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,400,245	\$ -
Changes in actuarial assumptions	-	11,997,074
Difference between projected and actual investments earnings	-	13,567,169
Changes in proportion and differences between contributions made and District's proportion share of contributions	11,912,064	17,318,272
District's contributions to PERA subsequent to the measurement date	13,417,426	-
Total	\$ 29,729,735	\$ 42,882,515

The \$13,417,426 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2021	\$ (16,582,062)
2022	(11,318,589)
2023	1,070,302
2024	260,143
Total	\$ (26,570,206)

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% Per year
Active member payroll growth	3.25% Per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2019:

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.5 %	5.10 %
Private markets	25.0	5.90
Fixed income	20.0	0.75
International equity	17.5	5.90
Cash equivalents	2.0	0.00
Total	<u>100 %</u>	

F. Discount Rates

The discount rate used to measure the total pension liability in 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The table on the following page presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	\$ 265,399,092	\$ 161,440,259	\$ 75,601,574

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

H. Pension Plan Fiduciary Net Position

Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their families. The plan offers medical and dental coverage administered by HealthPartners and Delta Dental, respectively. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Benefits Provided

Employees of the District who retire and have met the age and service requirements necessary to receive an annuity from PERA, TRA, or MERF are eligible to remain in the group health insurance plans. Employees who are at least age 55 or have 30 years or more service (including 10 years of service with the District) at retirement and are not qualified to participate in such program of medical insurance provided by another employer will receive health insurance. The District will contribute the same amount towards retiree health insurance as it would for active employees. The District will contribute the prevailing employer contribution from the master agreement in effect at the time of retirement until the earlier of age 65 or death. The General Fund, Capital Projects Fund, Food Service Fund, and Community Service Fund typically liquidate the Liability related to OPEB.

Dental insurance is covered by the District in the group plan for active employees and retirees contribute COBRA rates. For MPSASP and ELT plan members dental coverage through the District is only for those who were hired prior to July 1, 2010. Retirees for those plans still contribute the COBRA rates.

C. Members

As of June 30, 2020, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	70
Active employees	<u>5,560</u>
Total	<u><u>5,630</u></u>

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Health Partners. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2020, the District contributed \$1,100,265 to the plan.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Investment rate of return	4.50%, net of investment expense
Salary Scale	3.00%
Inflation	2.50%
Healthcare cost trend increases	8.0% , decreasing to 4.5% over eight years
 Mortality Assumption	 RP-2014 white collar mortality tables with MP-2015 generational improvement scale

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period July 1, 2019 – June 30, 2020.

Changes in Actuarial Assumptions

- Discount rate was decreased from 3.46% to 2.90% as of the June 30, 2020 measurement date.
- Annual wage increase rate was decreased from 3.50% to 3.00%
- Loads on healthcare trend were removed due to the repeal of the so-called "Cadillac Tax".
- Per-capita costs were updated to reflect experience since the previous valuation, including increase in morbidity assumption from 3.00% to 4.00%.
- Future retiree plan election was updated for Plan 1, Plan 2, and Plan 3 from 75%, 23%, 2% to 50%, 40%, 10%, respectively.
- Mortality improvement scale was updated from MP-2015 to MP-2018 for all groups except Teachers and Principals.

The discount rate used to measure the total OPEB liability was 2.90% based on the long-term expected rate of return and the municipal bond index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another scale).

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	50 %	0.00 %
Domestic equity	33	3.60
International equity	17	4.50
Unallocated cash	0	0.00
Other	0	0.00
	<hr/>	
Total	<u>100 %</u>	

The details of the investments and the investment policy are described in Note 2. of the District's financial statements. For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 3.61%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

F. Discount Rate

The discount rate used to measure the total OPEB liability was 2.90%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at July 1, 2019	\$ 80,769,184	\$ 21,086,531	\$ 59,682,653
Changes for the year			
Service cost	4,623,805	-	4,623,805
Interest	1,939,402	-	1,939,402
Differences between expected and actual economic experience	(15,311,149)	(188,054)	(15,123,095)
Employer contributions	-	1,100,265	(1,100,265)
Changes in assumptions	(10,786,001)	-	(10,786,001)
Benefit payments	(1,100,265)	(1,100,265)	-
Projected earnings on fiduciary net position	-	947,116	(947,116)
Administrative expense	-	(79,035)	79,035
Net changes	<u>(20,634,208)</u>	<u>680,027</u>	<u>(21,314,235)</u>
Balances at June 30, 2020	<u>\$ 60,134,976</u>	<u>\$ 21,766,558</u>	<u>\$ 38,368,418</u>
Plan fiduciary net position as a percentage of the total OPEB liability			36.20%

H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 2.90% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (1.90%)	Current (2.90%)	1% increase (3.90%)
Net OPEB Liability	\$ 43,434,878	\$ 38,368,418	\$ 33,633,175

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Liability Sensitivity (Continued)

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using trend rates that are 1% lower and 1% higher than the trend rates.

	1% decrease (8.00%)	Current (9.00%)	1% increase (10.00%)
Net OPEB Liability	\$ 30,834,317	\$ 38,368,418	\$ 47,399,689

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of \$2,048,712. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 610,809
Differences between expected and actual economic experience	-	18,782,917
Changes of assumptions	754,859	11,240,290
Total	\$ 754,859	\$ 30,634,016

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Total
2021	\$ (3,646,414)
2022	(3,646,416)
2023	(3,583,642)
2024	(3,374,741)
2025	(3,409,351)
2026+	<u>(12,221,593)</u>
Total	<u>\$ (29,882,157)</u>

NOTE 9 – 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 \$9,965,257 as disclosed in Note 10 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 further described in Note 7 as direct aid contributions.

D. Construction Commitments

The District has in process various multi-year construction and repair projects which were not completed in the current fiscal year. As of June 30, 2020, outstanding commitments for these multi-year projects total approximately \$9,959,293.

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 10 – 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, 2020 and 2019, was \$2,000,000.

Liabilities of \$8,775,248 have been recorded in the Self-Insurance Fund for known workers' compensation claims and for claims incurred but not reported as of June 30, 2020. The recorded reserves are actuarially evaluated annually and adjusted accordingly. The discount rate used at June 30, 2020, was 2.5%.

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 \$1,500,000 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 \$650,000 have been established to cover such claims as of June 30, 2020.

The following summarizes claims activity in the District's self-insurance internal service fund related to general liability and workers' compensation:

Claims incurred but not reported or case reserves at June 30, 2017	\$ 11,510,545
Claims incurred, fiscal year 2018	10,607,643
Claims paid, fiscal year 2018	<u>(10,447,795)</u>
Claims incurred but not reported or case reserves at June 30, 2018	11,670,393
Claims incurred, fiscal year 2019	6,294,517
Claims paid, fiscal year 2019	<u>(8,662,540)</u>
Claims incurred but not reported or case reserves at June 30, 2019	9,302,370
Claims incurred, fiscal year 2020	985,458
Claims paid, fiscal year 2020	<u>(322,571)</u>
Claims incurred but not reported or case reserves at June 30, 2020	<u><u>\$ 9,965,257</u></u>

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 10 – RISK MANAGEMENT (CONTINUED)

The District maintains commercial coverage for property insurance.

The District is self-insured for health benefits. A stop-loss policy was purchased that limits the District's loss to \$300,000 at which point the reinsurance coverage is available. The District also has aggregate stop-loss coverage in place which limits the District's liability to 120% of the prior year's claims. Settled claims have not exceeded this commercial coverage in any of the past three years.

The governmental funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2020, is \$3,097,661 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred, and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amounts for the past three years were as follows:

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2017-2018	\$ 3,548,380	\$ 42,487,627	\$ (43,256,914)	\$ 2,779,093
2018-2019	2,779,093	47,255,243	(46,656,228)	3,378,108
2019-2020	3,378,108	48,258,549	(48,538,996)	3,097,661

**Minneapolis Public Schools
Special School District No. 1
Notes to Financial Statements**

NOTE 11 – COMPENSATED ABSENCES

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

A. 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 (MORFA) may be eligible to receive payment for 50% of unused sick leave.

B. 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.

C. Principals

Employees hired on or before July 1, 2014, and who are at least 55 years of age or who are credited with 30 years of service receive severance pay amounting to 60% of unused sick leave. Employees hired after July 1, 2014, receive payment up to 80 hours of unused sick leave at 60% of the daily rate of pay.

NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2020, the District implemented GASB Statement No 84, Fiduciary Activities. As a result, the District moved student activity accounts in the amount of \$695,903 to the general fund and the governmental activities.

NOTE 13 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2022.

PRELIMINARY

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REQUIRED SUPPLEMENTARY INFORMATION

PRELIMINARY

**Minneapolis Public Schools
Special School District No. 1
Schedule of Changes in Net OPEB Liability
and Related Ratios**

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Total OPEB Liability				
Service cost	\$ 6,076,552	\$ 6,419,803	\$ 6,069,488	\$ 4,623,805
Interest	3,005,357	2,178,073	2,804,957	1,939,402
Differenced between expected and actual experience	-	(7,083,960)	-	(15,311,149)
Changes of assumptions	-	(2,164,523)	939,873	(10,786,001)
Benefit payments	(285,922)	(1,376,822)	(1,782,208)	(1,100,265)
Implicit rate subsidies	(1,920,313)	-	-	-
Net change in total OPEB liability	<u>6,875,674</u>	<u>(2,027,429)</u>	<u>8,032,110</u>	<u>(20,634,208)</u>
Beginning of year	<u>67,888,829</u>	<u>74,764,503</u>	<u>72,737,074</u>	<u>80,769,184</u>
End of Year	<u>\$ 74,764,503</u>	<u>\$ 72,737,074</u>	<u>\$ 80,769,184</u>	<u>\$ 60,134,976</u>
Plan Fiduciary Net Pension (FNP)				
Employer contributions	\$ -	\$ 3,376,822	\$ 1,782,208	\$ 1,100,265
Net investment income	1,272,204	-	-	-
Projected earnings on fiduciary net position	-	773,287	863,995	947,116
Net difference between projected and actual earnings	-	313,862	1,059,510	(188,054)
Benefit payments	-	(1,376,822)	(1,782,208)	(1,100,265)
Administrative expense	-	(69,058)	(73,760)	(79,035)
Net change in plan fiduciary net position	<u>1,272,204</u>	<u>3,018,091</u>	<u>1,849,745</u>	<u>680,027</u>
Beginning of year	<u>14,946,492</u>	<u>16,218,695</u>	<u>19,236,786</u>	<u>21,086,531</u>
End of year	<u>\$ 16,218,696</u>	<u>\$ 19,236,786</u>	<u>\$ 21,086,531</u>	<u>\$ 21,766,558</u>
Net OPEB liability	<u>\$ 58,545,807</u>	<u>\$ 53,500,288</u>	<u>\$ 59,682,653</u>	<u>\$ 38,368,418</u>
Plan FNP as a percentage of the total OPEB liability	21.69%	26.45%	26.11%	36.20%
Covered-employee payroll	\$ 363,751,046	\$ 360,122,986	\$ 372,727,291	\$ 331,585,577
Net OPEB liability as a percentage of covered-employee payroll	16.10%	14.86%	16.01%	11.57%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Minneapolis Public Schools
Special School District No. 1
Schedule of Employer Contributions - OPEB**

	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>
Actuarially determined contribution	\$ 8,990,196	\$ 1,251,751	\$ 1,778,462	\$ 1,037,462
Contributions in relation to the actuarially determined contribution	<u>2,356,085</u>	<u>3,376,822</u>	<u>1,782,208</u>	<u>1,100,265</u>
Contribution deficiency (excess)	<u>\$ 6,634,111</u>	<u>\$ (2,125,071)</u>	<u>\$ (3,746)</u>	<u>\$ (62,803)</u>
Covered-employee payroll	<u>\$ 363,751,046</u>	<u>\$ 360,122,986</u>	<u>\$ 372,727,291</u>	<u>\$ 331,585,577</u>
Contributions as a percentage of covered-employee payroll	0.65%	0.94%	0.48%	0.33%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

PRELIMINARY

**Minneapolis Public Schools
Special School District No. 1
Schedule of Investment Returns**

	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>
Annual money-weighted rate of return, net of investment expense	8.97%	6.72%	10.02%	3.61%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

PRELIMINARY

**Minneapolis Public Schools
Special School District No. 1
Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability - General Employees Retirement Fund
Last Ten Years***

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	1.9676%	\$ 92,427,990	\$ -	\$ 92,427,990	\$ 103,293,324	89.5%	78.7%
2015	3.5536%	184,165,995	-	184,165,995	110,161,680	167.2%	78.2%
2016	3.3730%	273,870,870	3,577,010	277,447,880	114,079,707	240.1%	78.8%
2017	2.8326%	180,831,314	2,273,787	183,105,101	87,249,667	207.3%	75.9%
2018	2.6337%	146,106,878	4,792,584	150,899,462	81,788,760	178.6%	79.5%
2019	2.9200%	161,440,259	5,017,615	166,457,874	111,419,373	144.9%	80.2%

Note: Schedule is intended to show ten year trend. Additional years will be displayed as they become available.

**Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability - TRA Retirement Fund
Last Ten Years***

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	8.6534%	\$ 398,742,430	\$ 25,768,509	\$ 424,510,939	\$ 238,717,909	167.0%	81.5%
2015	8.1323%	503,063,183	57,223,106	560,286,289	257,683,734	195.2%	76.8%
2016	9.1760%	2,188,694,939	192,864,529	2,394,574,710	301,171,984	726.7%	44.9%
2017	8.3442%	1,665,653,683	150,258,878	1,815,912,561	282,186,562	590.3%	51.6%
2018	7.8961%	495,950,319	43,395,549	539,345,868	273,509,336	181.3%	78.1%
2019	7.3196%	466,552,841	38,392,377	504,945,218	262,426,079	177.8%	78.2%

The District's Proportion and Proportionate Share of the Net Pension Liability include the percentage and amount under a special funding situation.

Note: Schedule is intended to show ten year trend. Additional years will be displayed as they become available.

**Minneapolis Public Schools
Special School District No. 1
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years***

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 7,488,766	\$ 7,488,766	\$ -	\$ 103,293,324	7.25%
2015	8,262,126	8,262,126	-	110,161,680	7.50%
2016	8,555,978	8,555,978	-	114,079,707	7.50%
2017	6,543,725	6,543,725	-	87,249,667	7.50%
2018	6,134,157	6,134,157	-	81,788,760	7.50%
2019	8,356,453	8,356,453	-	111,419,373	7.50%
2020	6,275,026	6,275,026	-	83,667,013	7.50%

In addition to these contributions, the District made an annual contribution of \$ 7,142,400 under a special funding situation for fiscal year 2015, 2016, 2017, 2018, 2019, and 2020.

Note: Schedule is intended to show ten year trend. Additional years will be displayed as they become available.

**Schedule of District Contributions
TRA Retirement Fund
Last Ten Years***

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 25,399,585	\$ 25,399,585	\$ -	\$ 228,003,456	11.14%
2015	28,705,968	28,705,968	-	257,683,734	11.14%
2016	33,550,559	33,550,559	-	301,171,984	11.14%
2017	31,435,583	31,435,583	-	282,186,562	11.14%
2018	30,468,940	30,468,940	-	273,509,336	11.14%
2019	29,785,360	29,785,360	-	262,426,079	11.35%
2020	28,340,795	28,340,795	-	245,162,587	11.56%

In addition to these contributions, the District makes an annual contribution of \$ 2,250,000 under a special funding situation.

Note: Schedule is intended to show ten year trend. Additional years will be displayed as they become available.

**Minneapolis Public Schools
Special School District No. 1
Notes to the Required Supplementary Information**

TRA Retirement Funds

2019 Changes

Changes in Actuarial Assumptions

- None

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.

**Minneapolis Public Schools
Special School District No. 1
Notes to the Required Supplementary Information**

TRA Retirement Funds (Continued)

2017 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

**Minneapolis Public Schools
Special School District No. 1
Notes to the Required Supplementary Information**

General Employees Fund

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changes prospectively, requiring \$16 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

**Minneapolis Public Schools
Special School District No. 1
Notes to the Required Supplementary Information**

General Employees Fund (Continued)

2017 Changes (Continued)

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

**Minneapolis Public Schools
Special School District No. 1
Notes to the Required Supplementary Information**

Post Employment Health Care Plan

2019 Changes

Changes in Actuarial Assumptions

- Discount rate was decreased from 3.46% to 2.90%.
- Annual wage increase rate was decreased from 3.50% to 3.00%
- Loads on healthcare trend were removed due to the repeal of the so-call “Cadillac Tax”
- Per-capita costs were updated to reflect experience since the previous valuation, including increase in morbidity assumption from 3.00% to 4.00%
- Future retiree plan election was updated for Plan 1, Plan 2, and Plan 3 from 75%, 23%, 2% to 50%, 40%, 10%, respectively
- Mortality improvement scale was updated from MP-2015 to MP-2018 for all groups except Teachers and Principals

2018 Changes

Changes in Actuarial Assumptions:

- Discount rate was decreased from 3.60% to 3.46%.

PRELIMINARY

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PRELIMINARY

SUPPLEMENTARY INFORMATION

**Minneapolis Public Schools
Special School District No. 1
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2020**

	Special Revenue			Debt Service	
	Food Service	Community Service	Total	Post Employment Benefits Debt Service	Total Nonmajor Funds
Assets					
Cash and investments	\$ 884,169	\$ 6,423,422	\$ 7,307,591	\$ 1,409,095	\$ 8,716,686
Current property taxes receivable	-	2,946,530	2,946,530	1,269,853	4,216,383
Delinquent property taxes receivable	-	56,048	56,048	8,245	64,293
Accounts receivable	13,355	68,956	82,311	138	82,449
Due from Department of Education	520,135	1,397,413	1,917,548	785	1,918,333
Due from other Minnesota school districts	-	202	202	-	202
Due from Federal Government through Department of Education	5,023,765	539,042	5,562,807	-	5,562,807
Due from Federal Government received directly	-	91,161	91,161	-	91,161
Inventory	1,615,465	-	1,615,465	-	1,615,465
	\$ 8,056,889	\$ 11,522,774	\$ 19,579,663	\$ 2,688,116	\$ 22,267,779
Liabilities					
Accounts payable	\$ 1,157,820	\$ 135,825	\$ 1,293,645	\$ -	\$ 1,293,645
Salaries and benefits payable	163,003	342,150	505,153	-	505,153
Due to other funds	3,149,818	-	3,149,818	-	3,149,818
Due to other governmental units	714	-	714	-	714
Deferred revenue	282,707	227,020	509,727	-	509,727
Total liabilities	4,754,062	704,995	5,459,057	-	5,459,057
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	-	5,568,034	5,568,034	2,402,317	7,970,351
Unavailable revenue - delinquent property taxes	-	56,048	56,048	8,245	64,293
Total deferred inflows of resources	-	5,624,082	5,624,082	2,410,562	8,034,644
Fund Balances					
Nonspendable	1,615,465	-	1,615,465	-	1,615,465
Restricted					
Restricted	1,687,362	417,325	2,104,687	277,554	2,382,241
Community education programs	-	1,927,253	1,927,253	-	1,927,253
Adult basic education	-	702,422	702,422	-	702,422
Early childhood and family Education programs	-	353,624	353,624	-	353,624
School readiness	-	1,793,073	1,793,073	-	1,793,073
Total fund balances	3,302,827	5,193,697	8,496,524	277,554	8,774,078
Total liabilities, deferred inflows of resources and fund balances	\$ 8,056,889	\$ 11,522,774	\$ 19,579,663	\$ 2,688,116	\$ 22,267,779

**Minneapolis Public Schools
Special School District No. 1
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2020**

	Special Revenue Funds			Debt Service	Total Nonmajor Funds
	Food Service	Community Service	Total	Post Employment Benefits Debt Service	
Revenues					
Local sources					
Local property taxes	\$ -	\$ 5,492,440	\$ 5,492,440	\$ 2,343,290	\$ 7,835,730
Earnings on investments	17,694	104,334	122,028	19,122	141,150
Other local and county revenues	295,683	6,926,890	7,222,573	-	7,222,573
Revenue from state sources	1,001,893	13,814,221	14,816,114	7,849	14,823,963
Revenue from federal sources	20,234,488	2,133,213	22,367,701	-	22,367,701
Sales and other conversion of assets	2,144,670	-	2,144,670	-	2,144,670
Total revenues	23,694,428	28,471,098	52,165,526	2,370,261	54,535,787
Expenditures					
Current					
Food service	22,866,971	-	22,866,971	-	22,866,971
Community education and services	-	31,181,411	31,181,411	-	31,181,411
Capital outlay					
Food service	88,505	-	88,505	-	88,505
Community education and services	-	50,591	50,591	-	50,591
Debt service					
Principal	-	-	-	2,130,000	2,130,000
Interest and fiscal charges	-	-	-	130,500	130,500
Total expenditures	22,955,476	31,232,002	54,187,478	2,260,500	56,447,978
Excess of revenues over (under) expenditures	738,952	(2,760,904)	(2,021,952)	109,761	(1,912,191)
Fund Balances					
Beginning of year	2,563,875	7,954,601	10,518,476	167,793	10,686,269
End of year	\$ 3,302,827	\$ 5,193,697	\$ 8,496,524	\$ 277,554	\$ 8,774,078

**Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Special Revenue Fund
Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local sources				
Earnings on investments	\$ -	\$ -	\$ 17,694	\$ 17,694
Other local and county revenues	-	74,407	295,683	221,276
Revenue from state sources	710,359	710,359	1,001,893	291,534
Revenue from federal sources	18,782,148	18,782,149	20,234,488	1,452,339
Sales and other conversion of assets	2,761,519	2,761,519	2,144,670	(616,849)
Total revenues	<u>22,254,026</u>	<u>22,328,434</u>	<u>23,694,428</u>	<u>1,365,994</u>
Expenditures				
Current				
Food service	22,079,026	22,114,334	22,866,971	752,637
Capital outlay				
Food service	175,000	214,100	88,505	(125,595)
Total expenditures	<u>22,254,026</u>	<u>22,328,434</u>	<u>22,955,476</u>	<u>627,042</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	738,952	<u>738,952</u>
Fund Balance				
Beginning of year			<u>2,563,875</u>	
End of year			<u>\$ 3,302,827</u>	

**Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Special Revenue Fund
Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local sources				
Local property taxes	\$ 5,541,671	\$ 5,541,671	\$ 5,492,440	\$ (49,231)
Earnings on investments	-	-	104,334	104,334
Other local and county revenues	9,819,614	9,552,477	6,926,890	(2,625,587)
Revenue from state sources	14,325,173	15,204,778	13,814,221	(1,390,557)
Revenue from federal sources	2,704,605	2,704,605	2,133,213	(571,392)
Total revenues	<u>32,391,063</u>	<u>33,003,531</u>	<u>28,471,098</u>	<u>(4,532,433)</u>
Expenditures				
Current				
Community education and services	36,061,477	37,052,349	31,181,411	(5,870,938)
Capital outlay				
Community education and services	193,622	67,275	50,591	(16,684)
Total expenditures	<u>36,255,099</u>	<u>37,119,624</u>	<u>31,232,002</u>	<u>(5,887,622)</u>
Excess of revenues over (under) expenditures	<u>\$ (3,864,036)</u>	<u>\$ (4,116,093)</u>	(2,760,904)	<u>\$ 1,355,189</u>
Fund Balance				
Beginning of year			<u>7,954,601</u>	
End of year			<u>\$ 5,193,697</u>	

**Minneapolis Public Schools
Special School District No. 1
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2020**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 607,844,278	\$ 607,844,278	\$ -	Total revenue	\$ 3,611,101	\$ 3,611,101	\$ -
Total expenditures	577,344,220	577,344,220	-	Total expenditures	91,067,412	91,067,412	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	1,269,376	1,269,376	-	4.60 Nonspendable fund balance	917,052	917,052	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	725,174	725,174	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.13 Building Projects Funded by COP/LP	-	-	-
4.03 Staff Development	-	-	-	4.67 Long-term Facilities Maintenance	118,839,677	118,839,677	-
4.05 Deferred Maintenance	-	-	-	<i>Restricted:</i>			
4.06 Health and Safety	-	-	-	4.64 Restricted fund balance	101,119,599	101,119,598	1
4.07 Capital Projects Levy	-	-	-	<i>Unassigned:</i>			
4.08 Cooperative Programs	-	-	-	4.63 Unassigned fund balance	-	-	-
4.13 Building Projects Funded by COP/LP	-	-	-	07 Debt Service Fund			
4.14 Operating Debt	-	-	-	Total revenue	\$ 93,235,543	\$ 93,235,542	\$ 1
4.16 Levy Reduction	-	-	-	Total expenditures	88,835,877	88,835,878	(1)
4.17 Taconite Building Maintenance	-	-	-	<i>Nonspendable:</i>			
4.23 Certain Teacher Programs	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.24 Operating Capital	-	-	-	<i>Restricted/reserved:</i>			
4.26 \$25 Taconite	-	-	-	4.25 Bond refundings	-	-	-
4.27 Disabled Accessibility	-	-	-	4.33 Maximum effort loan aid	-	-	-
4.28 Learning and Development	-	-	-	4.51 QZAB payments	28,264,217	28,264,217	-
4.34 Area Learning Center	1,421,247	1,421,247	-	4.67 LTFM	-	-	-
4.35 Contracted Alternative Programs	-	-	-	<i>Restricted:</i>			
4.36 State Approved Alternative Program	-	-	-	4.64 Restricted fund balance	13,629,105	13,629,105	-
4.38 Gifted and Talented	466,385	466,385	-	<i>Unassigned:</i>			
4.40 Teacher Development and Evaluation	-	-	-	4.63 Unassigned fund balance	-	-	-
4.41 Basic Skills Programs	-	-	-	08 Trust Fund			
4.45 Career Technical Programs	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.48 Achievement and Integration	2,927,601	2,927,601	-	Total expenditures	-	-	-
4.49 Safe School Crime	-	-	-	<i>Unassigned:</i>			
4.51 QZAB and QSCB Payments	-	-	-	4.01 Student Activities	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-	4.02 Scholarships	-	-	-
4.53 Unfunded Severance and Retirement Levy	-	-	-	4.22 Net position	-	-	-
4.59 Basic Skills Extended Time	2,792,710	2,792,710	-	18 CUSTODIAL			
4.67 Long-term Facilities Maintenance	160,765	160,765	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted:</i>				Total expenditures	-	-	-
4.72 Medical Assistance	-	-	-	<i>Restricted/reserved:</i>			
4.64 Restricted fund balance	1,100,000	1,100,000	-	4.01 Student Activities	-	-	-
4.75 Title VII - Impact Aid	-	-	-	4.02 Scholarships	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-	4.48 Achievement and Integration	-	-	-
<i>Committed:</i>				4.65 Restricted	-	-	-
4.18 Committed for separation	-	-	-	20 Internal Service Fund			
4.61 Committed	-	-	-	Total revenue	\$ 70,034,174	\$ 70,034,173	\$ 1
<i>Assigned:</i>				Total expenditures	57,693,431	57,693,432	(1)
4.62 Assigned fund balance	43,737,399	43,737,399	-	<i>Unassigned:</i>			
<i>Unassigned:</i>				4.22 Net position	22,049,483	22,049,481	2
4.22 Unassigned fund balance (net position)	52,573,025	52,573,029	(4)	25 OPEB Revocable Trust			
02 Food Services Fund				Total revenue	\$ -	\$ -	\$ -
Total revenue	\$ 23,694,428	\$ 23,694,429	\$ (1)	Total expenditures	-	-	-
Total expenditures	22,955,476	22,955,477	(1)	<i>Unassigned:</i>			
<i>Nonspendable:</i>				4.22 Net position	-	-	-
4.60 Nonspendable fund balance	1,615,465	1,615,465	-	45 OPEB Irrevocable Trust			
<i>Restricted/reserved:</i>				Total revenue	\$ 680,019	\$ 680,019	\$ -
4.52 OPEB liabilities not held in trust	-	-	-	Total expenditures	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
4.64 Restricted fund balance	1,687,362	1,687,362	-	4.22 Net position	21,766,550	21,766,550	-
<i>Unassigned:</i>				47 OPEB Debt Service			
4.63 Unassigned fund balance	-	-	-	Total revenue	\$ 2,370,261	\$ 2,370,262	\$ (1)
04 Community Service Fund				Total expenditures	2,260,500	2,260,500	-
Total revenue	\$ 28,471,098	\$ 28,471,097	\$ 1	<i>Nonspendable:</i>			
Total expenditures	31,232,002	31,231,999	3	4.60 Nonspendable fund balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
4.60 Nonspendable fund balance	-	-	-	4.25 Bond refundings	-	-	-
<i>Restricted/reserved:</i>				4.64 Restricted fund balance	277,554	277,555	(1)
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	1,927,253	1,927,253	-	4.63 Unassigned fund balance	-	-	-
4.32 ECFE	353,624	353,624	-	08 Trust Fund			
4.40 Teacher Development and Evaluation	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.44 School Readiness	1,793,073	1,793,073	-	Total expenditures	-	-	-
4.47 Adult Basic Education	702,422	702,422	-	<i>Unassigned:</i>			
4.52 OPEB Liabilities not Held in trust	-	-	-	4.01 Student Activities	-	-	-
<i>Restricted:</i>				4.02 Scholarships	-	-	-
4.64 Restricted fund balance	417,325	417,326	(1)	4.22 Net position	-	-	-
<i>Unassigned:</i>				20 Internal Service Fund			
4.63 Unassigned fund balance	-	-	-	Total revenue	\$ 70,034,174	\$ 70,034,173	\$ 1

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

**Reports on *Government Auditing
Standards*, Uniform Guidance,
and Legal Compliance**

June 30, 2020

PRELIMINARY



**Minneapolis Public Schools
Special District No. 1
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**Minneapolis Public Schools
Special District No. 1
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
School Breakfast Program	10.553	\$ 2,642,609
National School Lunch Program	10.555	7,251,332
Commodities Programs - Non Cash	10.555	1,292,187
COVID - Summer Food Service Program for Children	10.559	7,329,312
Total Child Nutrition Cluster		<u>18,515,440</u>
Cash in Lieu of Child and adult Care Food Program	10.558	1,280,895
Fresh Fruits and Vegetables Program	10.582	438,153
Total U.S. Department of Agriculture		<u>20,234,488</u>
U.S. Department of Education		
Through Minnesota Department of Education		
Adult Education - Basic Grants to States	84.002	705,707
Title I Grants To Local Educational Agencies		
Title I, Part A	84.010	21,354,513
Title I, Part D	84.010	124,976
Total Title I Grants To Local Educational Agencies		<u>21,479,489</u>
Special Education Cluster		
Special Education	84.027	8,069,265
Special Education - Preschool Grants	84.173	298,163
Total Special Education Cluster		<u>8,367,428</u>
Special Education - Grants for Infants and Families	84.181	293,878
Career and Technical Education - Basic Grants to States	84.048	668,877
Education for Homeless Children and Youth	84.196	98,651
21st Century Community Learning Centers	84.287	30,976
Special Education - State Personnel Development	84.323	124,443
English Language Acquisition	84.365	891,071
Title II, Part A - Supporting Effective Instruction	84.367	1,987,077
School Improvement Grants	84.377	1,797,736
Title IV, Part A - Student Support and Academic Enrichment Program	84.424	1,909,386

**Minneapolis Public Schools
Special District No. 1
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020**

<u>Federal Agency/Pass Through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education (Continued)		
Through YMCA		
21st Century Community Learning Centers	84.287	48,578
Direct		
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,565,843
21st Century Community Learning Centers	84.287	586,798
Fund for Improvement of Education	84.215	403,714
Indian Education Grants to Local Educational Agencies	84.060	264,291
Arts in Education - Professional Development for Arts Educators	84.351	252,531
Total U.S. Department of Education		<u>41,476,474</u>
U.S. Department of Justice		
Direct		
COPS Lock Replacement	16.710	71,284
STOP School Violence	16.839	169,242
Total U.S. Department of Justice		<u>240,526</u>
Corporation for National and Community Service		
Through Serve Minnesota		
AmeriCorps	94.006	67,522
U.S. Department of Education		
AmeriCorps	94.006	289,918
Total Corporation for National and Community Service		<u>357,440</u>
Total Federal Expenditures		<u>\$ 62,308,928</u>

**Minneapolis Public Schools
Special District No. 1
Notes to the Schedule of Expenditures of Federal Awards**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 3 – NONMONETARY ASSISTANCE

Nonmonetary assistance is reported in this schedule at the fair market value of commodities received and disbursed for the USDA Commodities Program (CFDA #10.555).

NOTE 4 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 5 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate.

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with *Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Minneapolis Public Schools, Special District No. 1 Minneapolis, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as audit finding 2020-001, that we consider to be a material weakness.

Compliance and Other Matters

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

District's Response to the Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Minneapolis, Minnesota
December 1, 2020

**Report on Compliance for each Major Federal Program and on Internal
Control Over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of Minneapolis Public Schools Special District No. 1, Minneapolis, Minnesota, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2020. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Minneapolis Public Schools Special District No. 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 1, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Minneapolis, Minnesota
December 1, 2020

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2020-001
• Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No:	10.553, 10.555, 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
CFDA No:	84.027, 84.173
Name of Federal Program or Cluster:	Special Education Cluster
CFDA No:	84.010
Name of Federal Program or Cluster:	Title I
CFDA No:	84.367
Name of Federal Program or Cluster:	Title II
CFDA No:	84.048A
Name of Federal Program or Cluster:	Carl Perkins
Dollar threshold used to distinguish between type A and type B programs:	\$1,869,268
Auditee qualified as low risk auditee?	No

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2020-001 – Segregation of Duties

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

We noted during review of the District's internal controls that there is a lack of segregation of duties over certain processes. A lack of segregation occurs when there is an individual who has responsibility to perform multiple functions in four key areas: initiation/authorization, processing/recording, reconciling/reporting of financial data, and custody of assets.

We noted lack of segregation of duties, to various degrees, in the following areas:

- SAP User Rights: A number of employees have excessive access to accounts payable functions, purchasing functions, and the general ledger. Also, there were instances identified where individuals have excessive access to perform many responsibilities within a process (e.g. create a vendor, enter an invoice for payment, and cut a check). There are also some employees who have the ability to make journal entries without review as a result of SAP user rights allocated to them. We recommend that the District review all user roles and the permissions granted to each role for appropriateness, taking into consideration adequate segregation of duties. The District should also validate that adequate compensating controls are implemented to review and detect irregular or fraudulent activity performed by users with elevated permissions. Additionally, individuals in a position of authority should have limited transactional ability within the SAP application to further prevent management override of controls.
- Financial Closing Process: Certain employees record transactions and reconcile balances at the end of the year without evidence of review by another employee in a timely manner. As a result of this condition, material audit adjustments were required for state aids and property taxes.

Context:

This finding impacts the internal control for all significant accounting functions.

Effect or Potential Effect:

The lack of adequate segregation of accounting duties adversely affected the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements as material audit adjustments were required for state aids and property taxes. Financial information could contain inaccurate information if reconciliations are not reviewed timely.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2020-001 – Segregation of Duties (Continued)

Cause:

Process flows and SAP user access rights are not designed to provide for proper segregation of duties in each area. Changes in roles and responsibilities of finance staff contributed to reconciliations of account balances not being reviewed timely which resulted in material misstatements.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the finding.

2. Actions Planned in Response to Finding

SAP User Rights – The Executive Director – IT has been working on system audits and some corrective action has already been implemented on user rights and we will keep monitoring the process.

Financial Closing Process – The process for the financial closing process will improve after changes in roles and responsibilities in the Finance Department.

3. Official Responsible for Ensuring CAP

SAP User Rights – Executive Director – IT

Financial Closing Process – Chief Financial Officer

4. Planned Completion Date for CAP

The planned completion date for the CAP is June 30, 2021.

5. Plan to Monitor Completion of CAP

The Finance and IT Department management will be monitoring the corrective action plan.

SECTION III – PRIOR YEAR FINDINGS

None

SECTION IV – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

Minnesota Legal Compliance**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Minneapolis Public Schools Special District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, and have issued our report thereon dated December 1, 2020.

The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The purpose of this report is to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Minneapolis, Minnesota
December 1, 2020

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Corrective Action
Plans on Legal Compliance**

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Audit Finding 2020-002 – Prompt Payment of Local Government Bills

Minnesota Statute 471.425 requires that school districts must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period. For school districts with governing boards that have regular meetings at least once a month, the standard payment period is within 35 days of the date of receipt.

During our audit, we noted invoices in our sample selection were not paid within the standard payment period of 35 days.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the finding.
2. Actions Planned in Response to Finding
The District will ensure that payments are made promptly in accordance with *Minnesota Statute 471.425*.
3. Official Responsible for Ensuring CAP
The Chief Financial Officer is responsible for ensuring corrective action.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2021.
5. Plan to Monitor Completion of CAP
The Finance Department management will be monitoring the corrective action plan.