

**ANNUAL
FINANCIAL REPORT OF
MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MINNEAPOLIS, MINNESOTA
YEAR ENDED JUNE 30, 2008**

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SPECIAL SCHOOL DISTRICT NO. 1
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INTRODUCTORY SECTION

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHOOL BOARD AND ADMINISTRATION
YEAR ENDED JUNE 30, 2008**

SCHOOL BOARD

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Lydia Lee	2009	Chair
Pam Costain	2011	Director
Peggy Flanagan	2009	Director
Sharon Henry-Blythe	2009	Clerk
Tom Madden	2011	Director
Chris Stewart	2011	Director
Theartrice (T) Williams	2011	Treasurer

ADMINISTRATION

Dr. William Green	Superintendent
Peggy Ingison	Chief Financial Officer
Stephanie Shawback	Executive Director of Finance
Robin Peabody	Controller
District Offices:	Special School District No. 1 Minneapolis Public Schools 807 NE Broadway Minneapolis, MN 55413 (612) 668-0000

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Special School District No. 1, Minneapolis, Minnesota as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2007 financial statements and, in our report dated March 10, 2008, we expressed unqualified opinions on the governmental activities, each major fund, and the aggregate remaining fund information. We did not audit the financial statements of Achieve!Minneapolis, a discretely presented component unit of the District. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit mentioned above, is based on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 of material misstatement. The financial statements of Achieve!Minneapolis were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Special School District No. 1 as of June 30, 2008, and the respective changes in financial position, thereof, and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds for the year then ended in conformity with U.S. generally accepted accounting principles.

School Board
Special School District No. 1
Minneapolis Public Schools

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the Schedule of Funding Progress for Postemployment Benefit Plan, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 Uniform Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information as required by the Minnesota Department of Education, and is not a required part of the basic financial statements of the District. The compliance table has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in Note 8 to the financial statements, the District adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting for Other Post Retirement Benefits*, as of June 30, 2008.


LarsonAllen LLP

Minneapolis, Minnesota
January 23, 2009

REQUIRED SUPPLEMENTARY INFORMATION

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

Special School District 1's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follows this section. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year (2007-2008) and the prior year (2006-2007) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2007-2008 fiscal year include the following:

- Total combined fund balance of all the District's governmental funds decreased 16.6% from the prior year due to an excess of expenditures over revenue of \$16.6 million and other financing uses exceeding other financing sources by \$20.5 million.
- Total governmental fund revenues were \$612.5 million, up \$4.1 million, or .7% over the prior year. State aids and federal sources of revenue accounted for a combined decrease of \$5.6 million. This decrease was offset by property tax revenues that increased by \$9.1 million primarily in the capital projects fund and the debt service fund. An additional decrease in interest revenue of \$2.7 million was offset by an increase in miscellaneous revenues of \$3.4 million.
- Total governmental fund expenses were \$629.1 million, up \$19.7 million, or 3.2% from the prior year. Nearly half of this increase was recognized in the debt service fund with a \$9.1 million increase in repayments of long term debt. The program areas of Special Education, Instruction Support, and Pupil Support accounted for a combined increase of \$15.8 million. An offsetting decrease of \$3.6 million was recognized in the area of Regular Instruction.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds statements* offer *short-term* and *long-term* financial information about the *District's self-insured risk management activities and postretirement obligations*.

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

Government-Wide Statements

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

The government-wide financial statements also include information on component units that are legally separate from the District (known as the primary government). At the close of the current fiscal year, the District has included information for one component unit, Achieve!Minneapolis. A copy of the audited financial statements for Achieve!Minneapolis can be obtained by writing to Achieve!Minneapolis at 111 Third Avenue South, Suite 5, Minneapolis, MN 55401.

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

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

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

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

Fund Financial Statements

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

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

The District has two kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements to explain the relationship (or differences) between them.
- *Proprietary Fund - Internal Service Fund* – Used to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund for self-insurance of worker's compensation, property and liability, as well as accumulating and recording the liability for accrued compensated absences (severance and vacation) and health insurance benefits for eligible employees upon retirement.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's *combined* net assets were \$191.3 million on June 30, 2008. This was a change of 22.7% from the prior year (see Table A-1).

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

	Primary Government		Percentage Change
	Governmental Activities		
	2008	2007	
Current and Other Assets	\$ 425,729,016	\$ 447,677,007	-4.90%
Capital and Non-Current Assets	530,406,384	540,062,733	-1.79
Total Assets	956,135,400	987,739,740	-3.20
Current Liabilities	295,420,511	286,323,773	3.18
Long-Term Liabilities	469,461,557	545,566,495	-13.95
Total Liabilities	764,882,068	831,890,268	-8.05
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	53,694,079	52,641,399	2.00
Restricted	37,912,073	34,946,736	8.49
Unrestricted	99,647,180	68,261,337	45.98
Total Net Assets	\$ 191,253,332	\$ 155,849,472	22.72

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

The increase in combined net assets of \$35.4 million was a result of an overall decrease in total liabilities of \$67.0 million with an offsetting decrease in total assets of \$31.6 million. One significant contribution to this change was the decrease in the districts long-term liabilities related to general obligation bonds and certificates of participation issued by the district. The net decrease in this area was \$62.7 million from the prior year with the majority resulting from the refunding of long term debt. This refunding utilizes cash held in escrow to fully retire debt with less favorable interest rates thus contributing to the change in total assets.

Changes in Net Assets

The District's *government-wide* total revenues were approximately \$614.9 million for the year ended June 30, 2008. Property taxes and unrestricted state aid accounted for 66.8% of total revenue for the year. An additional 2.8% came from other general revenues, 2.1% from investment earnings, and the remaining 28.3% from program revenues (see Table A-2 on next page).

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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

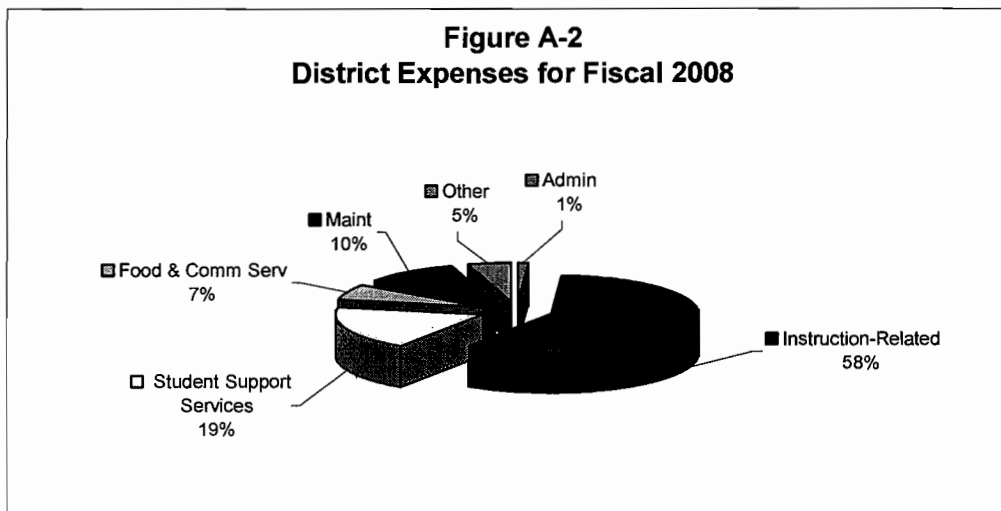
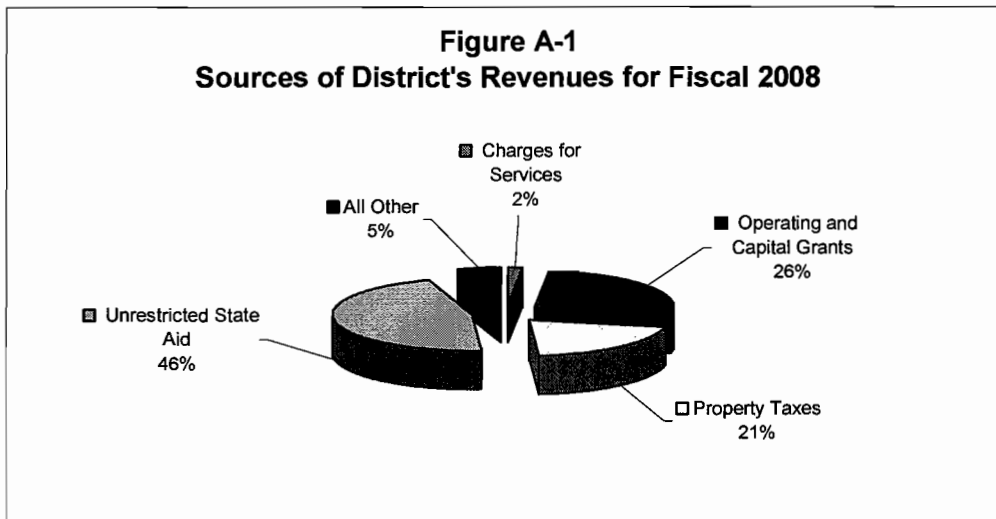
	Primary Government		Total % Change
	Governmental Activities for the Fiscal Year Ended June 30,		
	2008	2007	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 11,027,190	\$ 13,530,658	-18.50%
Operating Grants and Contributions	151,690,912	155,026,883	-2.15
Capital Grants and Contributions	11,000,000	19,620,209	-43.94
<u>General Revenues</u>			
Property Taxes	126,058,845	117,431,678	7.35
Unrestricted State Aid	284,804,959	278,550,164	2.25
Investment Earnings	12,981,393	15,429,471	-15.87
Other	17,346,608	11,959,350	45.05
Total Revenues	<u>614,909,907</u>	<u>611,548,413</u>	0.55
Expenses			
Administration	6,661,821	14,065,523	-52.64
District Support Services	19,699,877	16,027,997	22.91
Regular Instruction	226,959,151	259,907,851	-12.68
Vocational Education Instruction	5,156,727	4,261,025	21.02
Special Education Instruction	105,789,850	103,022,287	2.69
Instructional Support Services	34,249,710	43,256,049	-20.82
Pupil Support Services	53,500,027	54,057,107	-1.03
Sites and Buildings	60,709,585	57,498,241	5.59
Fiscal and Other Fixed Cost Programs	2,386,766	1,216,927	96.13
Food Service	13,710,916	14,125,698	-2.94
Community Service	25,756,346	25,444,660	1.22
Interest and Fiscal Charges on Long-Term Liabilities	24,925,271	28,271,090	-11.83
Total Expenses	<u>579,506,047</u>	<u>621,154,455</u>	-6.71
Special Item	<u>-</u>	<u>(25,500,000)</u>	
Increase (Decrease) in Net Assets	35,403,860	(35,106,042)	
Beginning Net Assets	155,849,472	190,955,514	
Ending Net Assets	<u>\$ 191,253,332</u>	<u>\$ 155,849,472</u>	

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

Total cost of all programs and services was \$579.5 million in fiscal 2008. District expenses were primarily related to educating and caring for students (76.9%). The District's Community and Nutritional Service programs accounted for 6.8% of expenses while facility maintenance totaled 10.5% and fiscal/other fixed cost expenses totaled 4.7%. District and school administration accounted for 1.1% of total expenses during fiscal 2008 (see Figure A-2 below).

The cost of all *governmental* activities this year was \$579.5 million.

- Some of the cost was paid by the users of the District's programs (Table A-2 previous page, Charges for Services, \$11.0 million).
- The federal and state governments subsidized certain programs with grants and contributions (Table A-2, Operating and Capital Grants and Contributions, \$162.7 million).
- Most of the District's costs were paid for with local property taxes of \$126.0 million, unrestricted state aid of \$284.8 million, investment earnings of \$13.0 million, and other general revenues of \$17.3 million.



**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

All governmental funds include not only funds received for the general operation of the District but also include resources from the entrepreneurial-type funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance general operation resources. Figure A-2 shown on the previous page, therefore, does not include Special Revenue Funds (Food & Community Services) as a component of the general operation of the District, since the District cannot take funds from these restricted areas and use the funds to enhance instruction-related programs.

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2008	2007		2008	2007	
Administration	\$ 6,661,821	\$ 14,065,523	-52.64%	\$ 6,638,754	\$ 13,841,716	-52.04%
District Support Services	19,699,877	16,027,997	22.91	16,343,369	13,313,692	22.76
Regular Instruction	226,959,151	259,907,851	-12.68	173,659,118	206,920,897	-16.07
Vocational Education Instruction	5,156,727	4,261,025	21.02	4,382,804	3,399,681	28.92
Special Education Instruction	105,789,850	103,022,287	2.69	43,952,823	41,186,327	6.72
Instructional Support Services	34,249,710	43,256,049	-20.82	30,939,889	39,375,348	-21.42
Pupil Support Services	53,500,027	54,057,107	-1.03	42,906,292	40,654,876	5.54
Sites and Buildings	60,709,585	57,498,241	5.59	54,185,032	39,375,467	37.61
Fiscal and Other Fixed Cost Programs	2,386,766	1,216,927	96.13	2,386,766	1,216,927	96.13
Food Service	13,710,916	14,125,698	-2.94	162,215	(162,366)	-199.91
Community Service	25,756,346	25,444,660	1.22	5,305,613	5,583,050	-4.97
Interest and Fiscal Charges on Long-Term Liabilities	24,925,271	28,271,090	-11.83	24,925,271	28,271,090	-11.83
Total	\$ 579,506,047	\$ 621,154,455	-6.71	\$ 405,787,945	\$ 432,976,705	-6.28

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$186.1 million, of which \$56.6 million is held in a debt service fund escrow to redeem bonds.

Revenues for the District's governmental funds were \$612.5 million while total expenditures were \$629.1 million. Based on these results, fund balance would have decreased by \$16.6 million. Other financing sources of \$29.1 million represent financing sources from the new issue of bonds, while the other financing uses of \$49.6 million represent payments on refunded bonds. These other sources and uses of financing along with the deficiency of revenues to expenditures resulted in an overall decrease to the *combined* fund balance of \$37.1 million from the prior year.

GENERAL FUND

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

Approximately 65% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having little authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68% of salaries/wages. Other state formulas then determine what portion of this revenue will be provided by property taxes and what portion will come from state aid. In fiscal year 2007-08 approximately 14% of the formula revenue was received through property tax levy and the remaining 86% was from state aid.

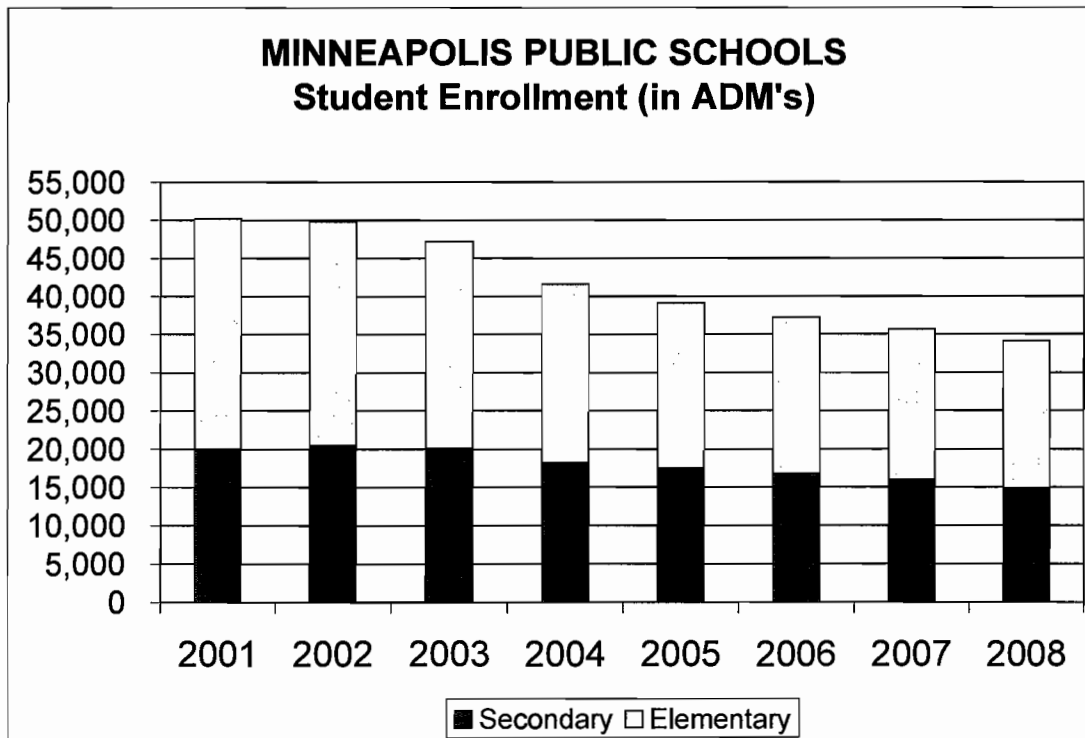
ENROLLMENT

Enrollment is a critical factor in determining revenue. The following chart shows that the number of students has decreased over the past several years.

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

	2001	2002	2003	2004	2005	2006	2007	2008
Reg K, Pre-K & KH	4,582	4,470	4,350	4,125	3,679	3,720	3,470	3,409
Elementary	25,549	24,839	22,802	19,260	17,962	16,787	16,221	15,832
Secondary	20,080	20,539	20,106	18,204	17,475	16,754	16,013	14,896
Total Students for Aid	50,211	49,848	47,258	41,589	39,116	37,261	35,704	34,138
Percent Change		-0.72%	-5.20%	-12.00%	-5.95%	-4.74%	-4.18%	-4.39%

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



**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

Over the last eight years, the District has experienced a decrease in average daily membership after peaking at 50,211 in 2001. It is anticipated the trend will continue with projections indicating a ongoing decline in birthrates in Minneapolis, increased competition from charter schools and other school districts including those selected under the "Choice is Yours Program", and a slower growth rate in the immigrant population.

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2008	June 30, 2007	Increase (Decrease)	Percent
Local Sources:				
Property Taxes	\$ 61,265,353	\$ 58,593,389	\$ 2,671,964	4.56%
Earnings on Investments	4,253,708	4,239,746	13,962	0.33
Other	17,333,642	15,904,831	1,428,811	8.98
State Sources	359,232,144	361,308,272	(2,076,128)	-0.57
Federal Sources	50,057,921	52,989,192	(2,931,271)	-5.53
Total General Fund Revenue	<u>\$ 492,142,768</u>	<u>\$ 493,035,430</u>	<u>\$ (892,662)</u>	-0.18

General Fund revenue decreased by approximately \$900 thousand or .2%, from the previous year.

Although the District experienced decreases in revenue due to declining enrollment, these decreases were offset by increases in bond proceeds for technology, property tax revenues, and miscellaneous revenues received by the district.

Federal Revenue is recorded in the year in which the related expenditure is made. Federal Sources decreased by nearly \$3 million.

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

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

Property tax credits reduce the amount of property taxes paid. To make up for this reduction, the state pays the difference between what was levied in property taxes and what is actually received in property taxes to school districts and other taxing districts.
3. Property Tax Levies

The largest share of the levy is from voter-approved levies: the excess operating referendum, which is also enrollment driven.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2008	June 30, 2007		
Salaries	\$ 292,275,057	\$ 285,372,858	\$ 6,902,199	2.42%
Employee Benefits	97,867,949	85,916,647	11,951,302	13.91
Purchased Services	76,161,067	81,216,530	(5,055,463)	-6.22
Supplies and Materials	13,852,785	14,693,023	(840,238)	-5.72
Capital Expenditures	10,352,276	4,712,173	5,640,103	119.69
Other Expenditures	1,142,762	1,644,818	(502,056)	-30.52
Total Expenditures	<u>\$ 491,651,896</u>	<u>\$ 473,556,049</u>	<u>\$ 18,095,847</u>	3.82

Total General Fund expenditures increased \$18.1 million or 3.8% from the previous year.

This increase in expenditures is a reflection of increased salaries and employee benefit costs including those for severance and post employment health care. Salary and benefits were up \$18.9 million or 16.3% over the prior year. This increase is offset by a reduction in contracted services of \$5.1 million or 6.2% over prior year.

The District also experienced a significant increase in capital expenditures which were up \$5.6 million. This was a result of increased spending on technology equipment for the classroom which has been funded through bond proceeds for the past two fiscal years.

DEBT SERVICE FUND

The Debt Service Fund had excess revenues over expenditures of \$2.8 million. The fund balance of \$83.3 million at June 30, 2008 is made up of two parts - reserved for bond refunding of \$56.6 million and unreserved of \$26.7 million available for meeting future debt service obligations.

OTHER MAJOR FUNDS

Expenditures exceeded revenues by \$135 thousand in the Food Service Fund, with an ending fund balance of \$2.6 million. In the Community Service Fund, revenues exceeded expenditures by \$498 thousand, with an ending fund balance of \$3.4 million. Bond proceeds of \$20.8 million along with revenues of \$9 million exceeded the expenditures in the Capital Projects – Building Construction fund by \$1.4 million leaving the fund balance at \$9.4 million.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008, the District had invested approximately \$527 million (net of accumulated depreciation) in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7). More detailed information about capital assets can be found in Note 3 to the financial statements. Total depreciation expense for the year totaled over \$32 million. Included in the District's capital assets are twelve idle school buildings. The value of these assets, net of depreciation, totals approximately \$22.7 million.

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

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Land	\$ 35,469,244	\$ 34,932,855	1.54%
Construction in progress	5,237,656	8,284,252	-36.78
Buildings and Improvements	847,666,804	828,567,939	2.31
Equipment	106,193,621	105,767,371	0.40
Less: Accumulated Depreciation	<u>(467,284,898)</u>	<u>(440,849,272)</u>	6.00
Total	<u><u>\$ 527,282,427</u></u>	<u><u>\$ 536,703,145</u></u>	-1.76

Long-Term Liabilities

At year-end, the District had \$538 million in general obligation bonds and certificates of participation payable outstanding, net of related premiums and discounts – reflecting a 11.7% decrease from last year – as shown in Note 5 to financial statements. The District also had an estimated \$40.2 million in post employment severance and health benefits payable, as well as self insurance reserves, at June 30, 2008.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

During the year, the District amended its expenditure and revenue budget with an increase of \$15.6 million which was for additional grant awards received throughout the year.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

The District's final budget for the General Fund anticipated that there would be a deficit of revenues over expenditures of \$8.6 million. Actual change in fund balance, including bond proceeds, was \$7.4 million thus increasing the total fund balance to \$87.4 million at June 30, 2008.

Actual revenues were \$27.6 million or 5.3% lower than budgeted, due mainly to the overall decrease in state and federal sources of revenue. The actual expenditures were \$38.8 million or 7.3% under budget. The method of budgeting for grants created some of the variance; once a grant award is received, a budget is created based on total grant award so that expenditures can be tracked. These grants often cross fiscal years and therefore the full budget is not expended by the end of the fiscal year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

For the past five years, the District has faced continued budget reductions as a result of declining enrollment and growing operating costs. Moving forward through the next two fiscal years the District projects further enrollment decline. This along with a very bleak financial forecast from the state has contributed to very significant budget shortfall projections for the next two years.

With the exception of the voter-approved excess levy referendum, the District is dependent on the State of Minnesota for its revenue authority. In fiscal 2008, 65% of general or non-program revenues came from state aids. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. The States current budget shortfall for the 2010-11 period is projected at \$4.8 billion without assuming any inflationary spending increases. The 2009 legislative session will be focused on erasing this shortfall which is expected to impact K-12 education funding. Despite this grim outlook in state funding the District has received the support of the resident voters who made the decision to continue and increase the District's approved referendum. This will aid the District in providing funds to support the District's strategic plan.

REQUEST FOR INFORMATION

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

Minneapolis Public Schools
Finance Department
807 NE Broadway
Minneapolis, Minnesota 55413
Or visit our website at <http://www.mpls.k12.mn.us>

BASIC FINANCIAL STATEMENTS

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF NET ASSETS (EXCLUDING COMPONENT UNIT)
JUNE 30, 2008
(WITH COMPARATIVE DATA AS OF JUNE 30, 2007)**

	Governmental Activities	
	2008	2007
ASSETS		
Cash and Investments	\$ 237,210,825	\$ 196,424,624
Cash and Investments Held by Trustee	62,690,883	114,628,173
Receivables:		
Property Taxes	70,373,543	69,479,349
Other Governments	51,522,494	62,253,325
Other	3,192,920	4,226,625
Inventories	738,351	664,911
Bond Issuance Costs, Net	3,123,957	3,359,588
Capital Assets:		
Land and Construction in Progress	40,706,900	43,423,107
Other Capital Assets, Net of Depreciation	486,575,527	493,280,038
Total Assets	956,135,400	987,739,740
LIABILITIES		
Salaries and Compensated Absences Payable	47,122,131	43,575,611
Accounts and Contracts Payable	16,541,740	17,359,024
Accrued Interest	9,690,014	11,325,993
Due to Other Governmental Units	544,126	1,029,915
Deferred Revenue:		
Property Taxes	107,773,166	106,420,112
Local Sources	5,052,566	6,259,846
Long-Term Liabilities:		
Portion Due Within One Year	108,696,768	100,353,272
Portion Due in More Than One Year	469,461,557	545,566,495
Total Liabilities	764,882,068	831,890,268
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	53,694,079	52,641,399
Restricted for:		
General Fund Operating Capital Purposes	722,149	761,386
General Fund State-Mandated Reserves	4,759,251	11,065,608
Food Service	2,559,518	2,694,398
Community Service	3,402,727	2,904,781
Debt Service	17,056,762	9,532,771
Capital Projects - Building Construction	9,411,666	7,987,792
Unrestricted	99,647,180	68,261,337
Total Net Assets	\$ 191,253,332	\$ 155,849,472

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF FINANCIAL POSITION – COMPONENT UNIT
JUNE 30, 2008**

ASSETS

Cash	\$ 3,678,694
Certificates of Deposit	1,122,073
Investments	2,457,451
Accounts Receivable	207,018
Contributions Receivable	1,976,500
Prepaid Expenses	24,322
Property and Equipment, Net	<u>90,921</u>
Total Assets	<u><u>\$ 9,556,979</u></u>

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 92,727
Accrued Vacation	70,340
Grants and Gifts Payable	<u>65,850</u>
Total Liabilities	228,917

Net Assets:

Unrestricted:	
Undesignated	718,596
Board Designated	<u>121,301</u>
Total Unrestricted Net Assets	839,897
Temporarily Restricted	7,755,331
Permanently Restricted	<u>732,834</u>
Total Net Assets	<u><u>9,328,062</u></u>
Total Liabilities and Net Assets	<u><u>\$ 9,556,979</u></u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF ACTIVITIES (EXCLUDING COMPONENT UNIT)
YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2007)**

Functions	2008				2007	
	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		Total Governmental Activities	Total Governmental Activities
Governmental Activities						
Primary Government:						
Administration	\$ 6,661,821	\$ -	\$ 5,000	\$ 18,067	\$ (6,638,754)	\$ (13,841,716)
District Support Services	19,699,877	161,650	447,667	2,747,191	(16,343,369)	(13,313,692)
Regular Instruction	226,959,151	635,854	50,532,951	2,131,228	(173,659,118)	(206,920,897)
Vocational Education Instruction	5,156,727	-	712,161	61,762	(4,382,804)	(3,399,681)
Special Education Instruction	105,789,850	1,505,367	60,273,118	58,542	(43,952,823)	(41,186,327)
Instructional Support Services	34,249,710	216,139	3,014,171	79,511	(30,939,889)	(39,375,348)
Pupil Support Services	53,500,027	7,858	10,427,631	158,246	(42,906,292)	(40,654,876)
Sites and Buildings	60,709,585	779,101	-	5,745,452	(54,185,032)	(39,375,467)
Fiscal and Other Fixed Cost Programs	2,386,766	-	-	-	(2,386,766)	(1,216,927)
Food Service	13,710,916	1,869,075	11,679,626	-	(162,215)	162,366
Community Service	25,756,346	5,852,146	14,598,587	-	(5,305,613)	(5,583,050)
Interest and Fiscal Charges on Long-Term Liabilities	24,925,271	-	-	-	(24,925,271)	(28,271,090)
Total School District	\$ 579,506,047	\$ 11,027,190	\$ 151,690,912	\$ 11,000,000	(405,787,945)	(432,976,705)
General Revenues						
Property Taxes Levied for:						
General Purposes					61,397,848	58,992,808
Community Service					4,782,050	4,710,257
Debt Service					53,253,505	49,458,613
Capital Projects					6,625,442	4,270,000
State Aid Not Restricted to Specific Purposes					284,804,959	278,550,164
Earnings on Investments					12,981,393	15,429,471
Miscellaneous					17,346,608	11,959,350
Total General Revenues					441,191,805	423,370,663
SPECIAL ITEMS						
Payment of Pension Obligation to MERF					-	(25,500,000)
Change in Net Assets					35,403,860	(35,106,042)
Net Assets - Beginning					155,849,472	190,955,514
Net Assets - Ending					\$ 191,253,332	\$ 155,849,472

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
COMPONENT UNIT
YEAR ENDED JUNE 30, 2008**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Contributions	\$ 231,117	\$ 4,718,203	\$ -	\$ 4,949,320
Contract Income	639,681	-	-	639,681
Earned Income	13,510	-	-	13,510
Investment Income	152,620	(156,946)	-	(4,326)
Special Events	47,741	25,650	-	73,391
Support from Minneapolis Public Schools	114,164	-	-	114,164
In-Kind Contributions	32,330	-	-	32,330
Miscellaneous	(43)	-	-	(43)
Net Assets Released from Restrictions	5,098,197	(5,098,197)	-	-
Total Support and Revenue	6,329,317	(511,290)	-	5,818,027
Expenses:				
Program Services	5,441,366	-	-	5,441,366
Management and General	421,691	-	-	421,691
Fundraising	394,945	-	-	394,945
Total Expenses	6,258,002	-	-	6,258,002
Loss on Disposition of Fixed Assets	69	-	-	69
Total Expenses and Losses	6,258,071	-	-	6,258,071
Change in Net Assets	71,246	(511,290)	-	(440,044)
Net Assets - Beginning	768,651	8,266,621	732,834	9,768,106
Net Assets - Ending	\$ 839,897	\$ 7,755,331	\$ 732,834	\$ 9,328,062

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008
(WITH COMPARATIVE DATA AS OF JUNE 30, 2007)**

	Major Funds					Total Governmental Funds	
	General	Food Service	Community Service	Capital Projects	Debt Service	2008	2007
ASSETS							
Cash and Investments	\$ 112,176,743	\$ 2,001,931	\$ 4,728,451	\$ 6,271,602	\$ 51,969,436	\$ 177,148,163	\$ 148,967,908
Cash and Investments Held by Trustee	-	-	-	6,103,231	56,587,652	62,690,883	114,628,173
Receivables:							
Current Property Taxes	35,314,725	-	2,817,208	-	29,732,931	67,864,864	67,170,990
Delinquent Property Taxes	1,282,898	-	103,479	-	1,122,302	2,508,679	2,308,359
Due from Minnesota Department of Education	36,140,523	29,129	1,026,270	-	1,294,274	38,490,196	41,122,630
Due from Federal through Minnesota Department of Education	8,617,068	531,209	186,523	-	-	9,334,800	17,343,469
Due from Federal Government Received Directly	1,164,880	-	604,142	-	-	1,769,022	1,827,564
Due from Other Governmental Units	1,928,476	-	-	-	-	1,928,476	1,959,662
Other Receivables	2,877,996	-	304,650	10,274	-	3,192,920	4,226,625
Inventory	228,459	509,892	-	-	-	738,351	664,911
Total Assets	\$ 199,731,768	\$ 3,072,161	\$ 9,770,723	\$ 12,385,107	\$ 140,706,595	\$ 365,666,354	\$ 400,220,291
LIABILITIES AND FUND BALANCE							
Liabilities:							
Salaries and Compensated Absences Payable	\$ 32,708,829	\$ -	\$ -	\$ -	\$ -	\$ 32,708,829	\$ 32,712,813
Payroll Deductions and Employer Contributions Payable	14,444,857	-	-	(31,555)	-	14,413,302	10,862,798
Accounts and Contracts Payable	12,608,264	512,643	415,837	2,953,792	-	16,490,536	17,288,324
Due to Other Governmental Units	544,126	-	-	-	-	544,126	1,029,915
Interest Payable	-	-	-	51,204	-	51,204	70,700
Deferred Revenue:							
Property Taxes Levied for Subsequent Year	46,181,549	-	5,341,752	-	56,249,865	107,773,166	106,420,112
Delinquent Property Taxes	1,282,898	-	103,479	-	1,122,302	2,508,679	2,308,359
Local Sources	4,545,638	-	506,928	-	-	5,052,566	6,259,846
Total Liabilities	112,316,161	512,643	6,367,996	2,973,441	57,372,167	179,542,408	176,952,867
Fund Balance:							
Reserved for:							
Alternative Facility Program	-	-	-	663,764	-	663,764	-
Area Learning Center	3,149,768	-	-	-	-	3,149,768	3,362,282
Basic Skills Programs	218,110	-	-	-	-	218,110	6,583,938
Health and Safety	814,727	-	-	-	-	814,727	778,241
Operating Capital	722,149	-	-	-	-	722,149	761,386
Contract Alternative Schools	576,646	-	-	-	-	576,646	193,801
Community Education Programs	-	-	2,064,222	-	-	2,064,222	1,973,800
Early Childhood and Family Educations Programs	-	-	404,322	-	-	404,322	465,854
School Readiness	-	-	357,431	-	-	357,431	319,152
Adult Basic Education	-	-	378,784	-	-	378,784	-
Bond Refundings	-	-	-	-	56,587,652	56,587,652	105,863,014
Building Construction	-	-	-	8,747,902	-	8,747,902	7,987,792
Unreserved:							
Designated	18,066,572	-	-	-	-	18,066,572	11,982,936
Undesignated, Reported In:							
General Fund	63,867,635	-	-	-	-	63,867,635	55,978,704
Debt Service Fund	-	-	-	-	26,746,776	26,746,776	23,835,004
Special Revenue Funds	-	2,559,518	197,968	-	-	2,757,486	2,840,373
Total Fund Balance	87,415,607	2,559,518	3,402,727	9,411,666	83,334,428	186,123,946	223,267,424
Total Liabilities and Fund Balance	\$ 199,731,768	\$ 3,072,161	\$ 9,770,723	\$ 12,385,107	\$ 140,706,595	\$ 365,666,354	\$ 400,220,291

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2008
(WITH COMPARATIVE DATA AS OF JUNE 30, 2007)**

	2008	2007
Total Fund Balance for Governmental Funds	\$ 186,123,946	\$ 223,267,424
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	35,469,244	34,932,855
Construction in Progress	5,237,656	8,284,252
Buildings and Improvements, Net of Accumulated Depreciation	460,604,100	467,353,373
Equipment, Net of Accumulated Depreciation	25,971,427	26,132,665
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds.		
	2,508,679	2,308,359
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(9,690,014)	(11,325,993)
Bond issuance costs are reported as expenditures in the governmental funds		
	3,123,957	3,359,588
Internal service funds are used by management to charge the costs of health, dental, workers compensation and general liability insurance to individual funds, as well as postemployment benefits. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets at year-end are:		
	19,887,035	2,873,101
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(313,276,000)	(363,066,000)
Unamortized Premiums	(8,768,405)	(9,507,726)
Unamortized Discounts	961,707	1,072,574
Certificates of Participation Payable	(216,900,000)	(229,835,000)
Total Net Assets of Governmental Activities	\$ 191,253,332	\$ 155,849,472

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2007)**

	Major Funds					Total	
	General	Food Service	Community Service	Capital Projects - Building Construction	Debt Service	Governmental Funds	
						2008	2007
REVENUES							
Local Sources:							
Property Taxes	\$ 61,265,353	\$ -	\$ 4,779,098	\$ 6,625,442	\$ 53,188,632	\$ 125,858,525	\$ 116,790,592
Earnings on Investments	4,253,708	27,335	163,345	429,164	5,881,412	10,754,964	13,394,846
Other	17,333,642	1,869,075	7,057,181	2,113,900	-	28,373,798	24,976,187
State Sources	359,232,144	818,419	10,035,148	-	12,942,739	383,028,450	384,928,733
Federal Sources	50,057,921	10,861,207	3,548,293	-	-	64,467,421	68,268,523
Total Revenues	492,142,768	13,576,036	25,583,065	9,168,506	72,012,783	612,483,158	608,358,881
EXPENDITURES							
Current:							
Administration	12,410,602	-	-	-	-	12,410,602	11,400,952
District Support Services	12,221,119	-	-	-	-	12,221,119	13,659,105
Regular Instruction	206,339,662	-	-	-	-	206,339,662	209,983,689
Vocational Education Instruction	5,033,655	-	-	-	-	5,033,655	4,249,301
Special Education Instruction	105,156,426	-	-	-	-	105,156,426	102,429,597
Instructional Support Services	42,637,848	-	-	-	-	42,637,848	30,561,201
Pupil Support Services	54,664,979	-	-	-	-	54,664,979	53,641,046
Sites and Buildings	40,448,563	-	-	19,012,335	-	59,460,898	63,410,888
Fiscal and Other Fixed Cost Programs	2,386,766	-	-	-	-	2,386,766	1,216,927
Food Service	-	13,009,370	-	-	-	13,009,370	13,742,288
Community Service	-	-	25,000,621	-	-	25,000,621	24,949,711
Capital Outlay	10,352,276	701,546	84,498	10,487,297	-	21,625,617	18,824,222
Debt Service:							
Principal	-	-	-	-	41,970,000	41,970,000	32,881,456
Interest and Fiscal Charges	-	-	-	-	27,182,382	27,182,382	28,477,822
Total Expenditures	491,651,896	13,710,916	25,085,119	29,499,632	69,152,382	629,099,945	609,428,205
Excess (Deficiency) of Revenues Over Expenditures	490,872	(134,880)	497,946	(20,331,126)	2,860,401	(16,616,787)	(1,069,324)
OTHER FINANCING SOURCES (USES)							
Proceeds from Sale of Equipment	-	-	-	-	-	-	2,791
Proceeds from Sale of Real Property	-	-	-	-	-	-	2,998,119
Proceeds from Insurance Recovery	-	-	-	-	-	-	513,821
Bonds Proceeds	7,800,000	-	-	20,800,000	245,000	28,845,000	60,060,000
Bond Premium	97,300	-	-	-	131,009	228,309	156,279
Bond Discount	-	-	-	-	-	-	(63,774)
Payment to Refunded Bond Escrow Agent	-	-	-	-	(49,600,000)	(49,600,000)	(81,090,000)
Transfers In	-	-	-	955,000	-	955,000	-
Transfers Out	(955,000)	-	-	-	-	(955,000)	-
Total Other Financing Sources (Uses)	6,942,300	-	-	21,755,000	(49,223,991)	(20,526,691)	(17,422,764)
SPECIAL ITEMS							
Payment of Pension Obligation to MERF	-	-	-	-	-	-	(25,500,000)
Net Change in Fund Balance	7,433,172	(134,880)	497,946	1,423,874	(46,363,590)	(37,143,478)	(43,992,088)
Fund Balance - Beginning	79,982,435	2,694,398	2,904,781	7,987,792	129,698,018	223,267,424	267,259,512
Fund Balance - Ending	\$ 87,415,607	\$ 2,559,518	\$ 3,402,727	\$ 9,411,666	\$ 83,334,428	\$ 186,123,946	\$ 223,267,424

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2007)**

	2008	2007
Net Change in Fund Balance-Total Governmental Funds	\$ (37,143,478)	\$ (43,992,088)

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

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

Capital Outlays	23,409,753	23,617,769
Gain (Loss) on Disposal of Capital Assets	(44,054)	(8,123,787)
Proceeds from Sales of Capital Assets	-	(3,000,910)
Impairment Loss	-	(21,717,798)
Depreciation Expense	(32,786,417)	(32,290,905)

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

General Obligation Bond Proceeds	(28,845,000)	(60,060,000)
Payment to Refunded Bond Escrow Agent	49,600,000	81,090,000
Bond Premium	(228,309)	(156,279)
Bond Discount	-	63,774
Bond Issuance Costs	97,300	408,018
Repayment of Certificates of Participation Payable	12,935,000	8,730,000
Repayment of Bond Principal	29,035,000	24,155,000
Change in Accrued Interest Expense - General Obligation Bonds	1,635,979	539,792
Amortization of Bond Issuance Costs	(332,931)	(1,200,859)
Amortization of Bond Premium	967,630	1,096,278
Amortization of Bond Discount	(110,867)	(637,120)

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	200,320	641,086
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Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net revenue of the internal service funds is reported with governmental activities.

	17,013,934	(4,268,013)
Change in Net Assets of Governmental Activities	\$ 35,403,860	\$ (35,106,042)

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Over (Under)
	Original	Final		Final Budget
REVENUES				
Local Sources:				
Property Taxes	\$ 61,652,415	\$ 61,652,415	\$ 61,265,353	\$ (387,062)
Earnings on Investments	2,750,000	2,750,000	4,253,708	1,503,708
Other	10,400,000	13,198,484	17,333,642	4,135,158
State Sources	369,087,965	370,429,124	359,232,144	(11,196,980)
Federal Sources	60,272,313	71,777,080	50,057,921	(21,719,159)
Total Revenues	<u>504,162,693</u>	<u>519,807,103</u>	<u>492,142,768</u>	<u>(27,664,335)</u>
EXPENDITURES				
Current:				
Administration	13,890,553	13,912,137	12,410,602	(1,501,535)
District Support Services	13,871,817	14,191,225	12,221,119	(1,970,106)
Regular Instruction	219,900,881	220,773,359	206,339,662	(14,433,697)
Vocational Education Instruction	3,656,892	5,065,742	5,033,655	(32,087)
Special Education Instruction	114,518,090	116,229,544	105,156,426	(11,073,118)
Instructional Support Services	37,636,825	40,427,402	42,637,848	2,210,446
Pupil Support Services	54,036,879	57,939,099	54,664,979	(3,274,120)
Sites and Buildings	42,782,044	42,681,953	40,448,563	(2,233,390)
Fiscal and Other Fixed Cost Programs	4,202,799	4,035,271	2,386,766	(1,648,505)
Capital Outlay	10,298,737	15,184,453	10,352,276	(4,832,177)
Total Expenditures	<u>514,795,517</u>	<u>530,440,185</u>	<u>491,651,896</u>	<u>(38,788,289)</u>
Excess (Deficiency) of Revenues Over Expenditures	(10,632,824)	(10,633,082)	490,872	11,123,954
OTHER FINANCING SOURCES (USES)				
Bonds Proceeds	2,000,000	2,000,000	7,800,000	5,800,000
Transfers In (Out)	-	-	(955,000)	(955,000)
Total Other Financing Sources (Uses)	<u>2,000,000</u>	<u>2,000,000</u>	<u>6,942,300</u>	<u>4,942,300</u>
Net Change in Fund Balances	<u>\$ (8,632,824)</u>	<u>\$ (8,633,082)</u>	7,433,172	<u>\$ 16,066,254</u>
FUND BALANCE				
Beginning of Year			<u>79,982,435</u>	
End of Year			<u>\$ 87,415,607</u>	

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Earnings on Investments	\$ -	\$ -	\$ 27,335	\$ 27,335
Other - Primarily Meal Sales	2,608,870	2,608,870	1,869,075	(739,795)
State Sources	706,179	706,179	818,419	112,240
Federal Sources	<u>11,491,868</u>	<u>11,491,868</u>	<u>10,861,207</u>	<u>(630,661)</u>
Total Revenues	14,806,917	14,806,917	13,576,036	(1,230,881)
EXPENDITURES				
Current:				
Food Service	13,973,191	13,973,191	13,009,370	(963,821)
Capital Outlay	<u>500,000</u>	<u>500,000</u>	<u>701,546</u>	<u>201,546</u>
Total Expenditures	<u>14,473,191</u>	<u>14,473,191</u>	<u>13,710,916</u>	<u>(762,275)</u>
Net Change in Fund Balance	<u>\$ 333,726</u>	<u>\$ 333,726</u>	(134,880)	<u>\$ (468,606)</u>
FUND BALANCE				
Beginning of Year			<u>2,694,398</u>	
End of Year			<u>\$ 2,559,518</u>	

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 4,920,207	\$ 4,920,207	\$ 4,779,098	\$ (141,109)
Earnings on Investments	-	-	163,345	163,345
Other - Primarily Tuition and Fees	5,401,000	5,403,641	7,057,181	1,653,540
State Sources	8,599,703	13,565,708	10,035,148	(3,530,560)
Federal Sources	-	1,755,913	3,548,293	1,792,380
Total Revenues	<u>18,920,910</u>	<u>25,645,469</u>	<u>25,583,065</u>	<u>(62,404)</u>
EXPENDITURES				
Current:				
Community Service	19,253,491	25,971,779	25,000,621	(971,158)
Capital Outlay	625,898	629,528	84,498	(545,030)
Total Expenditures	<u>19,879,389</u>	<u>26,601,307</u>	<u>25,085,119</u>	<u>(1,516,188)</u>
Excess (Deficiency) of Revenues Over Expenditures	(958,479)	(955,838)	497,946	1,453,784
OTHER FINANCING SOURCES (USES)				
Transfer in	56,540	56,540	-	(56,540)
Net Change in Fund Balance	<u>\$ (901,939)</u>	<u>\$ (899,298)</u>	497,946	<u>\$ 1,397,244</u>
FUND BALANCE				
Beginning of Year			<u>2,904,781</u>	
End of Year			<u>\$ 3,402,727</u>	

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF NET ASSETS
PROPRIETARY FUND
INTERNAL SERVICE FUND
JUNE 30, 2008
(WITH COMPARATIVE DATA AS OF JUNE 30, 2007)**

	2008	2007
ASSETS		
Current Assets:		
Cash and Investments	\$ 60,062,662	\$ 47,456,716
LIABILITIES		
Current Liabilities:		
Accrued Severance	3,263,248	3,399,921
Loss and Loss Adjustment Reserves - Workers' Compensation	3,468,520	2,886,893
Accrued Health Insurance Benefits	-	2,496,458
Total Current Liabilities	6,731,768	8,783,272
Noncurrent Liabilities:		
Loss and Loss Adjustment Reserves - Workers' Compensation	1,015,275	1,208,372
Incurred but Not Reported Reserves:		
Workers' Compensation	1,015,275	1,208,372
Property/Casualty	727,751	1,459,894
Accrued Severance	29,369,236	30,599,291
Accrued Health Insurance Benefits	1,316,322	1,324,414
Total Liabilities	40,175,627	44,583,615
NET ASSETS		
Unrestricted	\$ 19,887,035	\$ 2,873,101

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS
PROPRIETARY FUND
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2007)**

	2008	2007
OPERATING REVENUES		
Local Sources - Charges for Services	\$ 17,329,127	\$ 7,866,810
OPERATING EXPENSES		
Loss and Loss Adjustments	405,723	897,433
Claims Administration	24,455	991,441
Workers Compensation and Other Benefits	4,535,345	2,591,494
Severance	(2,423,901)	9,689,080
Total Operating Expenses	2,541,622	14,169,448
Operating Income (Loss)	14,787,505	(6,302,638)
NONOPERATING INCOME		
Earnings on Investments	2,226,429	2,034,625
Change in Net Assets	17,013,934	(4,268,013)
Total Net Assets - Beginning	2,873,101	7,141,114
Total Net Assets - Ending	\$ 19,887,035	\$ 2,873,101

See accompanying Notes to Basic Financial Statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2007)**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Premiums	\$ 17,329,127	\$ 7,866,810
Claims Administration	(24,455)	(991,441)
Claims Paid	(942,433)	(1,163,954)
Benefits Paid	(5,982,722)	(6,032,251)
Net Cash Provided (Used) by Operating Activities	10,379,517	(320,836)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	2,226,429	2,034,625
Net Increase in Cash and Cash Equivalents	12,605,946	1,713,789
Cash and Cash Equivalents - Beginning	47,456,716	45,742,927
Cash and Cash Equivalents - Ending	\$ 60,062,662	\$ 47,456,716
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 14,787,505	\$ (6,302,638)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Loss and Loss Adjustment Reserves	(536,710)	(266,521)
Accrued Health Insurance Benefits	(2,504,550)	(520,190)
Accrued Compensated Absences	(1,366,728)	6,768,513
Total Adjustments	(4,407,988)	5,981,802
Net Cash Provided (Used) by Operating Activities	\$ 10,379,517	\$ (320,836)

See accompanying Notes to Basic Financial Statements.



NOTES TO BASIC FINANCIAL STATEMENTS

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Special School District No. 1 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financials reporting principles. The GASB has issued a codification of governmental accounting and financial reporting standards titled Codification of Governmental Accounting and Financial Reporting Standards: Statement 34 Edition. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments that have implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, issued in June 1999.

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

B. Financial Reporting Entity

Special School District No. 1 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

U.S. Generally Accepted Accounting Principles (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

The District has included its one discretely presented component unit in its financial statements, Achieve!Minneapolis. Achieve!Minneapolis is a tax-exempt organization that is legally separate from the District but is included as a component unit since the economic resources received or held by the Organization are held for the direct benefit of the District. Achieve!Minneapolis’ mission is to galvanize community resources to help all Minneapolis Public School students succeed in school and become productive members of society.

The component unit reports under Financial Accounting Standards Board (FASB) standards, including FASB Standard 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component unit’s financial information in the District’s financial statements for these differences. A copy of the audited financial statements for Achieve!Minneapolis can be obtained by writing to Achieve!Minneapolis at 111 Third Avenue South, Suite 5, Minneapolis, MN 55401.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

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

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

C. Basic Financial Statement Presentation

The Government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net assets 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 funds and proprietary fund. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services are 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.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

1. Revenue Recognition

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

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

The District applies only those applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 in accounting and reporting for its proprietary operations.

The District reports deferred revenue on its balance sheet and government-wide statement of net assets. Deferred revenues on the balance sheet arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise in the government-wide statement of net assets when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Description of Funds

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

Major Governmental Funds

General Fund

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

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services.

Capital Projects Fund

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

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term obligation bond principal, interest, and related costs.

Proprietary Fund

Internal Service Fund

The Internal Service Funds accounts for the financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

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

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

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. 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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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

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

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

<u>Revenues (including Other Financing Sources)</u>	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	\$ 506,162,693	\$ 15,644,410	\$ 521,807,103
Special Revenue Funds:			
Community Service Fund	18,977,450	6,724,559	25,702,009
 <u>Expenditures (including Other Financing Uses)</u>			
General Fund	\$ 514,795,517	\$ 15,644,668	\$ 530,440,185
Special Revenue Funds:			
Community Service Fund	19,879,389	6,721,918	26,601,307
Debt Service Fund	74,730,058	52,367,550	127,097,608

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

F. Cash and Investments

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

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments (Continued)

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

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment pools operated in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940 are valued at the pool's share price.

G. Accounts Receivable

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

H. Inventories

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to the Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through state credits which are included in revenue from state sources in the financial statements. Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy plus an additional amount related to a decrease in the 1993 Pay 1994 referendum levy related to the allocation of HACA and resulting increase in referendum equalization aid (frozen at \$11,255,239) advance recognized as revenue in fiscal 2008 with no corresponding state aid adjustment. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2008, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District records all asset purchases in a capital asset group if the purchase is equal or greater than approximately \$5,000 for all equipment. All vehicles and land are capitalized if greater than \$5,000 and all building and site improvements are capitalized if greater than \$25,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the Government-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. The District's capital assets have the following estimated useful lives:

Asset	Useful Life
Buildings	50 Years
Building Improvements	20 Years
Equipment	10 Years
Vehicles	8 Years
Computers	5 Years

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

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

K. Long-Term Obligations

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

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Compensated Absences

The District's employee vacation and sick leave policies grant to certain groups of employees, if certain conditions are met (see Note 14), 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 ranging between 5.0% and 6.4% annually, (2) discount rate of 4.5%, (3) withdrawal rates during the first three years of service are assumed at between 46.0% – 51.75% in the first year, 11.5% – 18.0% during the second year, and 6.9% – 12.0% during the third year, depending on position, with rates between 0.0% and 10.08% used after that point in time.

M. Restricted Assets

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

N. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

O. Net Assets

Net assets represent the difference between assets and liabilities in the Government-wide financial statements. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted in the Government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

P. Estimates

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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 assets and the balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the District maintains deposits at financial institutions which are authorized by the School District's Board.

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

The carrying value and bank balance of the District's deposits in banks at June 30, 2008 is \$21,619,150 and \$24,385,691, respectively.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

Primary Government

Investment Policy:

In accordance with the Minnesota Statutes Chapter 118A, 471.56, 475.66 and other applicable law, including regulations, the District's investment policy permits making deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in the State of Minnesota. The District is allowed to invest in U.S. Treasury or Federal Agency obligations, commercial paper related "A-1" or higher and that matures in 270 days or less at the time of purchase, collateralized certificates of deposit, repurchase agreements backed by government collateral, and bankers' acceptances of the top 40 U.S. banks.

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

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

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

Credit Risk:

The District's investment policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from Moody's Investors Service and/or Standard & Poor's. As of June 30, 2008, the District held no commercial paper.

As of June 30, 2008, 9.5% of the District's investments were in "AAA" rated government bonds that were direct obligations or guaranteed issues of the United States, its agencies, instrumentalities, or organizations created by Congress; 90.2% was invested in the Minnesota School District Liquid Asset Fund Plus which is rated "AAAm". The remaining .3% of the portfolio was invested in a money market fund.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk:

The District's investment policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than \$5,000,000 of the District's portfolio will be invested in the securities of any single commercial paper issuer. The District did not hold commercial paper as of June 30, 2008. Additionally, as of June 30, 2008, the District did not hold any investments in any issuer that exceeded 5% of the total portfolio.

Interest Risk Rate:

As of June 30, 2008, the market values, duration and percent allocation of the District's investments were as follows:

<u>Investment Type</u>	<u>Market Value</u>	<u>Duration (Years)</u>	<u>Percent Allocation</u>
MSDLAF+	\$ 194,516,653	0.003	90.22 %
Federal National Mortgage Association (FNMA)	3,763,232	4.786	1.75
Federal Home Loan Mortgage Corp (FHLMC)	2,177,190	9.620	1.01
Federal Home Loan Bank (FHLB)	10,463,716	3.321	4.85
Federal Farm Credit Bank (FFCB)	966,392	1.490	0.45
U.S. Treasury Securities	3,010,027	1.823	1.40
Small Business Admin (SBA)	153,433	2.340	0.07
Cash / Money Market Funds	541,032	0.003	0.25
Total	<u>\$ 215,591,675</u>		<u>100.00 %</u>

The weighted average duration of the District's cash and investments was 0.361 years at fiscal year-end.

Custodial Credit Risk:

GASB 40 requires disclosure of all uninsured investment securities purchased by the District or held as collateral on deposits or investments that are not registered in the name of the Minneapolis Public Schools Special School District No. 1 and held by the counterparty to the investment transactions. As of June 30, 2008, all of the District's investments were registered in the District's name. Merrill Lynch, and Voyager Asset Management are counterparties to the transactions of those investments held by each agent as of June 30, 2008 and, thus, are not independent third-party custodial agents.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Cash and Investments Held by Trustee

Cash and investments of \$62,690,883 are held by an escrow agent in accordance with escrow agreements established with the sale of certain refunding bonds. As securities mature, proceeds will be used to pay in full the refunding bonds.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 34,932,855	\$ 536,389	\$ -	\$ 35,469,244
Construction in Progress	8,284,252	5,200,663	(8,247,259)	5,237,656
Total Capital Assets, Not Being Depreciated	43,217,107	5,737,052	(8,247,259)	40,706,900
Capital Assets, Being Depreciated:				
Buildings and Improvements	828,567,939	19,098,865	-	847,666,804
Equipment	105,767,371	6,821,095	(6,394,845)	106,193,621
Total Capital Assets, Being Depreciated	934,335,310	25,919,960	(6,394,845)	953,860,425
Accumulated Depreciation for:				
Buildings and Improvements	(361,214,566)	(25,848,138)	-	(387,062,704)
Equipment	(79,634,706)	(6,938,279)	6,350,791	(80,222,194)
Total Accumulated Depreciation	(440,849,272)	(32,786,417)	6,350,791	(467,284,898)
Total Capital Assets, Being Depreciated, Net	493,486,038	(6,866,457)	(44,054)	486,575,527
Governmental Activities Capital Assets, Net	<u>\$ 536,703,145</u>	<u>\$ (1,129,405)</u>	<u>\$ (8,291,313)</u>	<u>\$ 527,282,427</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 CAPITAL ASSETS (CONTINUED)

Depreciation expense of \$32,786,417 for the year ended June 30, 2008 was charged to the following governmental functions:

Governmental Activities	
Administration	\$ 130,701
District Support Services	2,166,149
Regular Instruction	26,472,971
Vocational Education Instruction	31,650
Special Education Instruction	518,332
Instructional Support Services	324,272
Pupil Support Services	1,749,643
Sites and Buildings	700,578
Community Education	692,121
	<hr/>
Total Depreciation Expense, Governmental Activities	<u>\$ 32,786,417</u>

At June 30, 2008, the District carried twelve idle closed school buildings in the above amounts. The value of these assets, net of depreciation, recorded on the District's financial statements, totaled approximately \$22.7 million.

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

A. Components of General Long-Term Debt

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
05-08-01	5.00%	43,000,000	02-01-17	\$ 29,050,000	\$ 29,050,000
06-15-02	3.00%-5.00%	41,135,000	02-01-18	2,300,000	28,100,000
06-15-02	3.00%-5.00%	3,411,000	06-25-16	-	3,411,000
06-24-03	2.00%-4.00%	11,850,000	02-01-14	1,150,000	7,575,000
06-29-04	4.00%-5.00%	27,160,000	02-01-20	3,025,000	18,535,000
03-27-01	4.25%-4.50%	26,375,000	02-01-14	2,965,000	15,805,000
06-24-03	3.00%-4.00%	58,720,000	02-01-14	7,390,000	44,560,000
08-31-04	3.25%-4.00%	26,815,000	02-01-16	3,005,000	26,815,000
03-01-05	3.00%-5.00%	55,380,000	02-01-17	3,815,000	54,475,000
09-15-06	4.00%-4.125%	25,640,000	02-01-22	2,590,000	23,460,000
09-15-06	5.375%-5.70%	25,660,000	02-01-22	1,230,000	24,960,000
11-01-06	4.00%	8,760,000	02-01-14	1,135,000	7,685,000
12-27-07	3.9081%	28,845,000	2/1/2023	2,450,000	28,845,000
Total General Obligation Bonds		474,126,000		60,105,000	313,276,000
11-12-02	2.00%-5.00%	30,000,000	02-01-23	1,200,000	24,800,000
11-14-00	5.00%-5.50%	38,500,000	02-01-21	30,000,000	30,000,000
03-01-05	4.00%-4.50%	86,720,000	02-01-21	4,005,000	82,905,000
11-12-02	2.50%-5.00%	16,750,000	02-01-15	950,000	7,700,000
10-23-01	3.50%-4.75%	61,200,000	02-01-20	3,000,000	42,600,000
03-27-01	4.25%-5.00%	44,360,000	02-01-17	2,705,000	28,895,000
Total Certificates of Participation		277,530,000		41,860,000	216,900,000
Bond Premium - Net				-	8,768,405
Bond Discounts - Net				-	(961,707)
Self Insurance Reserves and Post Employment Benefits				6,731,768	40,175,627
				<u>\$ 108,696,768</u>	<u>\$ 578,158,325</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

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

Year Ending June 30,	General Obligation Bonds Payable		Certificates of Participation Payable	
	Principal	Interest	Principal	Interest
2009	\$ 60,105,000	\$ 13,375,543	\$ 41,860,000	\$ 9,880,491
2010	33,045,000	10,642,029	14,120,000	7,834,854
2011	34,315,000	9,382,912	14,820,000	7,253,116
2012	34,315,000	8,042,466	15,335,000	6,641,081
2013	32,695,000	6,646,753	15,930,000	5,988,374
2014 - 2018	92,816,000	16,444,310	83,420,000	18,694,205
2019 - 2023	25,985,000	3,171,729	31,415,000	3,108,988
Total	<u>\$ 313,276,000</u>	<u>\$ 67,705,742</u>	<u>\$ 216,900,000</u>	<u>\$ 59,401,109</u>

C. Description of Long-Term Debt

General Obligation School Building Bonds

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

In December of 2007, the District issued \$28,845,000 of General Obligation Bonds, Series 2007.

Certificates of Participation

The total principal amount of certificates of participation outstanding will be retired by property tax levies in the Debt Service Fund. The District's certificates of participation bear interest at rates ranging from 2.0% to 5.5%.

Self Insurance Reserves and Post Employment Benefits

See Notes 7 through 11 for detailed information on the District's Self Insurance Plan, Compensated Absences, and Retiree Health Insurance Benefits.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

	June 30, 2007	Additions	Reductions	June 30, 2008	Due Within One Year
Governmental Activities					
Bonds Payable:					
General Obligation Bonds	\$ 363,066,000	\$ 28,845,000	\$ (78,635,000)	\$ 313,276,000	\$ 60,105,000
Bond Premium	9,507,726	228,309	(967,630)	8,768,405	-
Bond Discount	(1,072,574)	-	110,867	(961,707)	-
Certificates of Participation Payable	229,835,000	-	(12,935,000)	216,900,000	41,860,000
Self Insurance Reserves and Post Employment Benefits	44,583,615	-	(4,407,988)	40,175,627	6,731,768
Total Governmental Activity Long-Term Liabilities	<u>\$ 645,919,767</u>	<u>\$ 29,073,309</u>	<u>\$ (96,834,751)</u>	<u>\$ 578,158,325</u>	<u>\$ 108,696,768</u>

NOTE 6 RESERVED FUND BALANCES

Certain portions of fund balance are reserved based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. Any such "reserves" which have an accumulated deficit rather than a positive balance at June 30 are included in unreserved fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. However, a description of these "deficit balance reserves" is included herein since the District has specific statutory authority to levy taxes for such deficits.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 RESERVED FUND BALANCES (CONTINUED)

Reserved and unreserved/designated fund balances at June 30, 2008 are as follows:

	Reserved	Unreserved/ Designated
General Fund:		
Reserved for Area Learning Center	\$ 3,149,768	\$ -
Reserved for Basic Skills Programs	218,110	-
Reserved for Health and Safety	814,727	-
Reserved for Operating Capital	722,149	-
Reserved for Contract Alternative Schools	576,646	-
Designated for Northside Initiative	-	5,781,891
Designated for Alternative Compensation	-	5,164,295
Designated for Reemployment Insurance	-	845,634
Designated for Site Carryover	-	6,274,752
Total General Fund	5,481,400	18,066,572
Special Revenue Funds:		
Community Service Fund:		
Reserved for School Readiness	357,431	-
Reserved for Adult Basic Education	378,784	-
Reserved for Community Education Programs	2,064,222	-
Reserved for Early Childhood and Family Education Programs	404,322	-
Total Special Revenue Funds	3,204,759	-
Capital Projects - Building Construction Fund:		
Reserved for Alternative Facility Program	663,764	-
Reserved for Building Construction	8,747,902	-
Total Capital Projects - Building Construction Fund	9,411,666	-
Debt Service:		
Reserved for Bond Refunding	56,587,652	-
Total All Funds	\$ 74,685,477	\$ 18,066,572

A. Reserved for Area Learning Center

Reserved for students attending Area Learning Centers.

B. Reserved for Basic Skills Programs

Reserved for basic skills represents amounts available for basic skills uses.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 RESERVED FUND BALANCES (CONTINUED)

C. Reserved for Health and Safety

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

D. Reserved for Operating Capital

Reserved for purchase of equipment and facilities.

E. Reserved for Contract Alternative Schools

Reserved for provision of services to contract alternative schools.

F. Designated for Alternative Compensation

Designated for alternative teacher pay.

G. Designated for Site Carryover

The District has designated fund balance for the unspent portion of the school sites' fiscal 2006 budgets.

H. Reserved for School Readiness Programs

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

I. Reserved for Adult Basic Education

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

J. Reserved for Community Education Programs

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

K. Reserved for Early Childhood and Family Education Programs

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 RESERVED FUND BALANCES (CONTINUED)

L. Reserved for Alternative Facility Program

This fund balance reservation represents accumulated resources available to fund certain capital projects.

M. Reserved for Building Construction

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

N. Reserved for Bond Refunding

Reserved for amounts held in escrow for the future refunding of callable bonds of the District.

NOTE 7 RETIREMENT PLANS

Minneapolis Teachers Retirement Fund Association

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

A. Teacher's Retirement Association (TRA)

1. Plan Description

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

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7 RETIREMENT PLANS (CONTINUED)

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

1. Plan Description (Continued)

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

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

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 5.5% and 9.0%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

Employer contribution rates are 5.5% of covered payroll for Coordinated Plan members and 9.5% of covered payroll for Basic Plan members. The District is also required to contribute an additional employer contribution of 3.64% for its employees. The contribution requirements of plan members and the District are established and may be amended by State Statute.

Contributions to TRA for the years ended June 30, 2008 and 2007 were \$20,124,939 and \$18,023,417, respectively. The District had no contributions to TRA for the year ended June 30, 2006 (other than the statutory required contributions – see Note 9) since contributions were made to MTRFA for the previous year which was merged on June 30, 2006 into TRA.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7 RETIREMENT PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the Public Employees' Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

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

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

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.5%.

The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.5% effective January 1, 2008. The District's contributions for the years ended June 30, 2008, 2007 and 2006 were \$5,941,805, \$5,687,260 and \$4,857,369, respectively, equal to the contractually required contributions for each year as set by state statute.

**MINNEAPOLIS PUBLIC SCHOOLS
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JUNE 30, 2008**

NOTE 7 RETIREMENT PLANS (CONTINUED)

C. Minneapolis Employees Retirement Fund

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

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

MERF issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for MERF. That report may be obtained by writing to MERF, 300 Baker Building, 706 2nd Avenue South, Minneapolis, MN 55402 or by calling (612) 335-5950.

Funding Policy—Minnesota Statutes Chapter 422 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plan equal to the amount required by state statute. Plan members are required to contribute 9.25% and 0.5% of their total compensation for retirement benefits and survivor benefits, respectively. The District and the State of Minnesota are required to contribute the remaining amounts necessary to apply benefits when due, plus amounts to cover administrative costs. The District’s contributions to the Minneapolis Employees Retirement Fund for the years ended June 30, 2008, 2007 and 2006 were \$1,385,678, \$27,747,355 (including an additional payment of \$25,500,000 to fund the negative balance in the active fund), and \$1,898,582, respectively. The District’s contributions were equal to the contractually required contributions for each year as set by state statute.

D. Deferred Compensation Plans

The District sponsors various Internal Revenue Code Section 457 and 403b deferred compensation plans, covering certain employees, whereby the District has agreed to match contributions of its employees at rates specified in the applicable labor contracts. The amount expensed related to such agreements during 2008 was \$4,678,405.

**MINNEAPOLIS PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 8 POST-EMPLOYMENT BENEFITS

At June 30 2008, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*.

A. Plan Description

The District provides health and dental insurance benefits for certain retired employees under a single-employer fully-insured plan. The District provides benefits for retirees as required by *Minnesota Statute* §471.61 subdivision 2b. Active employees who retire from the District when eligible to receive a retirement benefit from PERA, TRA, or MERF and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the District's health benefits program until age 65. Pursuant to the provisions of the plan, retirees are required to pay varying percentages of the total premium cost. As of July 1, 2007 there were approximately 1,000 retirees receiving health benefits from the District's health plan.

B. Funding Policy

The District funds its OPEB obligation on a pay as you go basis. For fiscal year 2008, the District contributed \$5,318,691 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual Required Contribution	\$ 6,635,013
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	<u>6,635,013</u>
Contributions Made	<u>(5,318,691)</u>
Increase in Net OPEB Obligation	1,316,322
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation - End of Year	<u><u>\$ 1,316,322</u></u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 8 POST-EMPLOYMENT BENEFITS (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$ 6,635,013	\$ 5,318,691	80.2%	\$ 1,316,322

D. Funding Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$76,407,816. The annual payroll for active employees covered by the plan in the actuarial valuation was \$286,238,000 for a ratio of UAAL to covered payroll of 26.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 8 POST-EMPLOYMENT BENEFITS (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

In the July 1, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of the District. The annual healthcare cost trend rate is 10.0% initially, reduced incrementally to an ultimate rate of 4.5% after ten years. The unfunded actuarial accrued liability is being amortized over a closed 30-year period increasing at 5.5% per year (the payroll growth rate).

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 \$6,226,821 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 in addition to amounts required for employer contributions as stated in Note 7.

D. The District has in process various multi-year construction and repair projects which were not completed in the current fiscal year. As of June 30, 2008, outstanding commitments for these multi-year projects total approximately \$7,400,000.

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.

**MINNEAPOLIS PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 10 RISK MANAGEMENT (CONTINUED)

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, 2008 and 2007 was \$820,000 and \$800,000, respectively.

Liabilities of \$5,499,070 have been recorded in the Self-Insurance Fund for known workers' compensation claims and for claims incurred but not reported as of June 30, 2008. The recorded reserves are actuarially evaluated annually and adjusted accordingly. The discount rate used at June 30, 2008 was 4.0%.

The District became self-insured for general liability for claims incurred after January 1, 1990 through June 30, 1999, and for claims incurred after July 1, 2001 (the self-insurance period). The District purchased general liability insurance from Royal Insurance covering the period from July 1, 1999 through June 30, 2001. Claims incurred during the self-insurance period are the responsibility of the District. Minnesota statutes limit the maximum liability of a public employer to \$300,000 per claimant and \$1,000,000 for claims from a single event. There are several lawsuits pending in which the District is involved. The District estimates that the potential claims against the District that are not covered by insurance or reserves resulting from such litigation would not materially affect the District's financial statements. Liabilities of \$727,751 have been established to cover such claims as of June 30, 2008.

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

Claims Incurred but Not Reported or Case Reserves at June 30, 2006	\$ 7,030,052
Claims Incurred, Fiscal Year 2007	897,433
Claims Paid, Fiscal Year 2007	<u>(1,163,954)</u>
Claims Incurred but Not Reported or Case Reserves at June 30, 2007	6,763,531
Claims Incurred, Fiscal Year 2008	405,723
Claims Paid, Fiscal Year 2008	<u>(942,433)</u>
Claims Incurred but Not Reported or Case Reserves at June 30, 2008	<u><u>\$ 6,226,821</u></u>

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

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 COMPENSATED ABSENCES

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

A. Civil Service

(1) All Civil Service Except Civil Service Administrators

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

(2) Civil Service Administrators

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

B. Administrators

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

C. Principals and Teachers

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

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

NOTE 12 SUBSEQUENT EVENTS

Subsequent to year-end, the District issued \$24,645,000 General Obligation Bonds, Series 2008 to fund various capital improvements and technology projects.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 13 COMPONENT UNIT INFORMATION

The significant accounting policies and related note disclosures for contributions, investments and net assets, as reported in the separately issued financial statements of Achieve!Minneapolis are presented below:

Contributions

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires or is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets.

In-Kind Contributions

Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a non-financial asset or the service requires specialized skills that would need to be purchased if not provided by donation. Contributed materials and space are recorded when received at their fair value, where such value can be objectively and accurately determined.

Government Grants and Contracts

Government grants and contracts are generally considered exchange transactions and recorded as revenues when the related costs are incurred. Amounts received prior the cost being incurred are recorded as refundable advances. Amounts expended but not yet reimbursed have been recorded as accounts receivable. Management believes that the Organization is not exposed to significant credit risk related to accounts receivable.

Investments

At June 30, 2008, investments are stated at fair value, which is based upon the quoted market prices for readily marketable securities and valuations obtained from professional investment managers for other securities.

The investments are all part of the Minneapolis Foundation Master Fund. The cost of the investments was \$2,498,013 at June 30, 2008.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 13 COMPONENT UNIT INFORMATION (CONTINUED)

Contributions Receivable

Contributions receivable have been discounted to the net present value and are due as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 1,125,277
2010	911,316
Total Unconditional Promises to Give	2,036,593
Less: Discount of 5% to Net Present Value	(60,093)
Total	<u>\$ 1,976,500</u>

These receivables are due from the following organizations:

McKnight Foundation	\$ 265,000
Cargill Foundation	1,483,701
Holman Foundation	80,000
General Mills Foundation	65,000
Curtis L. Carlson Family Foundation	40,000
Allianz Life	25,000
Medica Financial	25,000
Marquette Financial	10,000
Individuals	42,892
Less: Discount of 5% to Net Present Value	(60,093)
Total	<u>\$ 1,976,500</u>

Net Assets

Board Designated

The Board of the Organization provides that the organization may retain in reserve up to six months of estimated operating funds as board-designated net assets.

Temporarily Restricted

Temporarily restricted net assets consist of the following:

Contributions Receivable	\$ 1,995,500
Cash and Investments Held for Programs	5,759,831
Total	<u>\$ 7,755,331</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 13 COMPONENT UNIT INFORMATION (CONTINUED)

Net Assets (Continued)

Temporarily Restricted (Continued)

Temporarily restricted net assets are for the following purposes:

Scholarships	\$ 1,284,612
Career and College Centers	1,350,711
High School/Middle School Transformation	816,153
Arts for Academic Achievement	1,183,291
Special Education	430,106
School Materials	356,387
Cargill Tutoring Program	347,394
Curriculum Enhancement	1,660,587
Principal Leadership and Teacher Training	131,451
STEP-UP Summer Jobs Program	66,232
General Operating	23,000
Other Programs	105,407
Total	<u>\$ 7,755,331</u>

Permanently Restricted

Permanently restricted net assets consist of cash and investments restricted for the following purposes:

Principal Leadership and Teacher Training	\$ 131,018
Post-Secondary Scholarships	601,816
Total	<u>\$ 732,834</u>

REQUIRED SUPPLEMENTARY INFORMATION

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2008**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2007	\$ -	\$ 76,407,816	\$ 76,407,816	0.0%	\$ 286,238,000	26.7%

SUPPLEMENTAL INFORMATION



**MINNEAPOLIS PUBLIC SCHOOLS
UNIFORM FINANCIAL ACCOUNTING AND
REPORTING STANDARDS COMPLIANCE TABLE
JUNE 30, 2008**

01 GENERAL FUND

Total Revenue	\$ 492,142,768
Total Expenditures	\$ 491,651,896
<i>Reserved:</i>	
403 Staff Development	\$ -
405 Deferred Maintenance	-
406 Health & Safety	814,727
407 Capital Project Levy	-
408 Cooperative Programs	-
411 Severance Pay	-
414 Operating Debt	-
416 Levy Reduction	-
419 Encumbrances	-
423 Certain Teacher Programs	-
424 Operating Capital	722,149
426 \$25 Taconite	-
427 Disabled Accessibility	-
428 Learning & Development	-
434 Area Learning Center	3,149,768
435 Contracted Alt. Programs	576,646
436 State Approved Alt. Program	-
438 Gifted & Talented	-
441 Basic Skills Programs	218,110
445 Career and Technical Programs	-
446 First Grade Preparedness	-
449 Safe Schools Levy	-
450 Prekindergarten	-
451 QZAB Payments	-
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	81,934,207

02 FOOD SERVICE

Total Revenue	\$ 13,576,036
Total Expenditures	\$ 13,710,916
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	-
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	2,559,518

04 COMMUNITY SERVICE

Total Revenue	\$ 25,583,065
Total Expenditures	\$ 25,085,119
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	-
426 \$25 Taconite	-
431 Community Education	2,064,222
432 E.C.F.E.	404,322
444 School Readiness	357,431
447 Adult Basic Education	378,784
<i>Unreserved:</i>	
418 Severance Premium	\$ -
422 Unreserved/Undesignated	197,968

06 BUILDING CONSTRUCTION

Total Revenue	\$ 9,168,506
Total Expenditures	\$ 29,499,632
<i>Reserved:</i>	
407 Capital Projects Levy	-
409 Alternative Facility Program	663,764
419 Encumbrances	-
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 8,747,902

07 DEBT SERVICE

Total Revenue	\$ 72,012,783
Total Expenditures	\$ 69,152,382
<i>Reserved:</i>	
425 Bond Refundings	\$ 56,587,652
451 QZAB Payments	-
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 26,746,776

08 TRUST

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Reserved:</i>	
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

09 AGENCY

<i>Unreserved: Should Always Be -0-</i>	
422 Unreserved/Undesignated	\$ -

20 INTERNAL SERVICE

Total Revenue	\$ 19,555,556
Total Expenditures	\$ 2,541,622
<i>Reserved:</i>	
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 19,887,035

25 OPEB REVOCABLE TRUST

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

45 OPEB IRREVOCABLE TRUST

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

47 OPEB DEBT SERVICE

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Reserved:</i>	
425 Bond Refundings	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

FY08 OPERATING CAPITAL TRANSFER

Per Pupil Amount	\$ -
AMCPU	-
Total Transfer	\$ -

