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

Financial Statements

June 30, 2017

bergan KDV
CPAS | ADVISORS

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

Minneapolis Public Schools
Special School District No. 1
Board of Education and Administration
Year Ended June 30, 2017

Board of Education	Position	Term Expires
Rebecca Gagnon	Chair	2019
Kim Ellison	Vice Chair	2021
Bob Walser	Clerk	2021
Jenny Arneson	Treasurer	2019
Siad Ali	Director	2019
KerryJo Felder	Director	2021
Nelson Inz	Director	2019
Ira Jourdain	Director	2021
Don Samuels	Director	2019
Gabriel Spinks	Student Representative	2018
Administration		
Ed Graff	Superintendent	
Ibrahima Diop	Chief Financial Officer	
Tariro Chapinduka	Director - Financial Systems	
District Offices	Special School District No. 1 Minneapolis Public Schools 1250 West Broadway Avenue Minneapolis, MN 55411 (612) 668-0000	

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of , Special School District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of , Special School District No. 1, Minneapolis, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund, the Food Service Special Revenue Fund, and the Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 74

As discussed in Note 9 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
November 30, 2017

Minneapolis Public Schools
Special School District No. 1
Management's Discussion and Analysis

This section of the District's annual financial report presents a discussion and analysis of the District's financial performance during fiscal year ended June 30, 2017. Please read it in conjunction with the financial statements that immediately follow this section.

The MD&A is an element of required supplementary information specified in the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, issued in June 1999. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- Total combined fund balance of all the District's governmental funds increased $44.9 million, from the prior year. This net increase was due primarily to lack of capital outlay expenditures for building constructions over proceeds from bond issuances offset by an increase in current expenditures for Elementary and Secondary Regular Instruction over revenue. Total governmental fund revenues were $710.6 million, essentially flat over the prior year of $709.8 million. Although revenue from property taxes and federal sources increase from prior year, the increase was offset by a decrease in revenue from state sources of about $8 million or 2%. Property taxes increased by $7 million or 4.2% primarily due to increase in debt service levy. Federal revenue increase by $4 million dollar primarily due to increase in Title II and special education expenditures

- Total governmental funds expenditures were $800 million, down $78 million, or 8.8% from the prior year. This decrease is primarily related to a decrease of $71 million related to building construction and a decrease of $10.5 million related to debt payments. Total current expenditures increased by 2% or $11.7 million. Specifically, current expenditures by program increased in the following programs: District Support Services by $0.8 million or 4%, Vocational Education Instruction by $0.2 million or 5%, Instructional Support Services by $7.1 million or 13%, Sites and Building by $3.3 million or 5%, Pupil Support Services by $1.3 million or 2%, Food Service by $0.6 million or 3%, and Community Education by $2.4 million or 9%. Additionally, current expenditures decreased in the following programs: Administration by $0.3 million or 2%, Elementary and Secondary Instructional by 2 million or 1%, and Special Education Instruction by $1.6 million or 1%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are **government-wide financial statements** that provide both *short-term* and *long-term* information about the District's *overall* financial status.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- 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.

- **Governmental funds statements** tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.

- **Proprietary funds statements** *offer short-term and long-term financial information about the District's self-insured risk management activities.*

- **Fiduciary funds statements** provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

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

Government-Wide Statements

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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).

The District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

- **Proprietary Fund - Internal Service Fund** – Used to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund for self-insurance of worker's compensation, property and liability, as well as accumulating and recording the liability for accrued compensated absences (severance and vacation) and health insurance benefits for eligible employees upon retirement.

- **Fiduciary Fund** – The District is the trustee, or *fiduciary*, for assets that belong to others, such as assets held in trust for post-employment benefits. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was negative $685 million on June 30, 2017. This was a change of 86% from the prior year (see Table A-1).

Table A-1
The District's Net Position

	Primary Government Governmental Activities 2017	Primary Government Governmental Activities 2016	Percentage Change
Current and other assets	$ 578,446,875	$ 523,255,668	10.55%
Capital assets	646,314,036	640,670,286	0.88%
Total assets	1,224,760,911	1,163,925,954	5.23%
Deferred outflows of resources	1,595,377,321	193,147,077	725.99%
Total assets and deferred outflows of resources	2,820,138,232	1,357,073,031	107.81%
Current liabilities	132,079,282	139,609,856	-5.39%
Long-term liabilities	3,161,255,408	1,330,276,033	137.64%
Total liabilities	3,293,334,690	1,469,885,889	124.05%
Deferred inflows of resources	212,253,297	255,860,018	-17.04%
Net position			
Net investment in capital assets	149,160,083	163,600,431	-8.83%
Restricted	35,723,782	34,335,606	4.04%
Unrestricted	(870,333,620)	(538,616,538)	-61.59%
Total net position	$ (685,449,755)	$ (340,680,501)	-101.20%

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

Total net position decreased by approximately $317 million, due to increases in pension related expenses due to changes in actuarially related assumptions described in the Notes to the Requires Supplementary Information. As presented in the table above, net investment in capital assets experienced a decrease of $14.4 million over the prior year, while restricted net position increased by $15.4 million and unrestricted net position decreased by approximately $317.7 million.

The District's increase in current and other assets is due to increase in cash and investments as a result of unspent bond proceeds for building construction. The District's increase in total liabilities is due to salaries, and compensated absences payable, bonds payable and net pension liability. Pension related liability increased by approximately $1.8 billion from prior year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's *government-wide* total revenues were approximately $736 million for the year ended June 30, 2017. Property taxes and unrestricted state aid accounted for 73% of total revenue for the year. An additional 2% came from other general revenues, and the remaining 25 % from program revenues (Table A-2).

Table A-2
Change in Net Position

	Primary Government Governmental Activities for the Fiscal Year Ended June 30,		
Revenues	2017	2016	Percentage Change
Program revenues			
Charges for services	$ 17,204,739	$ 17,691,880	-2.75%
Operating grants and contributions	156,341,813	155,997,379	0.22%
Capital grants and contributions	10,733,375	11,000,000	-2.42%
General revenues			
Property taxes	185,955,797	178,793,844	4.01%
State formula aid	353,255,021	336,893,500	4.86%
Other	12,611,235	11,146,058	13.15%
Total revenues	736,101,980	711,522,661	3.45%
Expenses			
District and school administration	$ 29,036,288	$ 17,878,755	62.41%
District support services	22,972,094	23,434,369	-1.97%
Regular instruction	494,078,827	299,342,502	65.05%
Vocational instruction	6,788,131	4,165,122	62.98%
Special education instruction	185,485,643	122,654,412	51.23%
Instructional support services	90,336,077	54,061,851	67.10%
Pupil support services	87,780,289	66,689,766	31.62%
Sites, buildings, and equipment	82,267,082	57,484,050	43.11%
Fiscal and other fixed cost programs	559,310	585,971	-4.55%
Food service	23,606,809	21,911,207	7.74%
Community education and services	36,961,573	26,915,641	37.32%
Interest and fiscal charges on long-term debt	20,999,111	16,485,498	27.38%
Total expenses	1,080,871,234	711,609,144	51.89%
Change in net position	(344,769,254)	(86,483)	-398555.52%
Net position - beginning	(340,680,501)	(340,594,018)	
Net position - ending	$ (685,449,755)	$ (340,680,501)	-101.20%

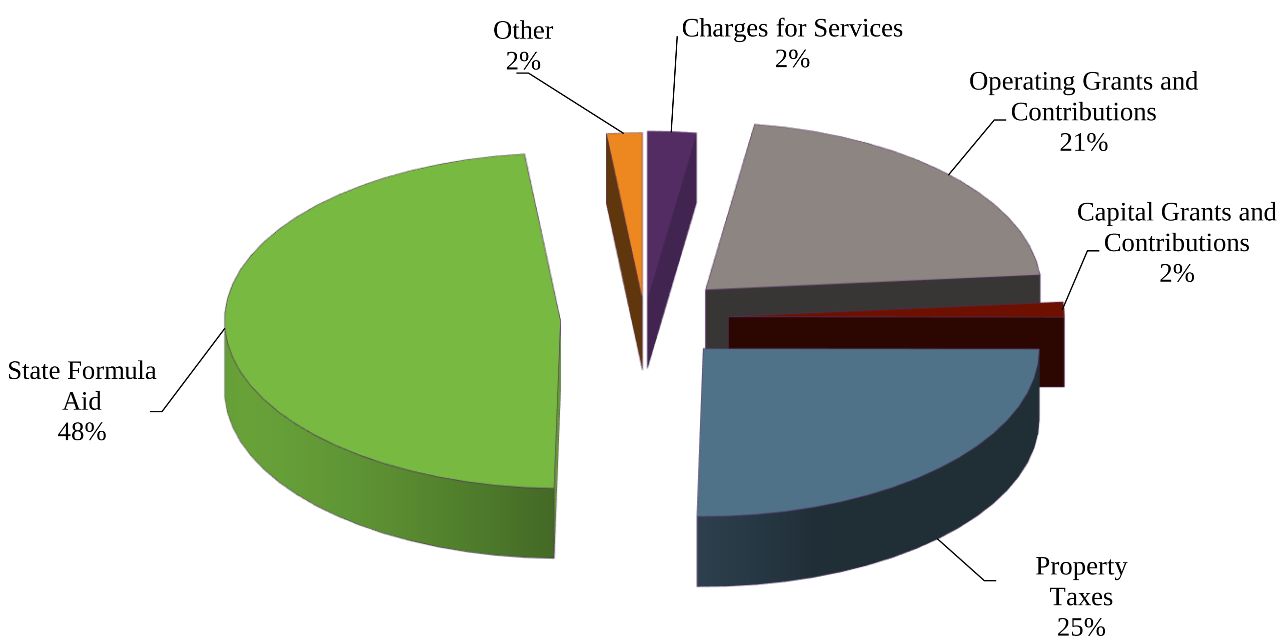
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Total cost of all programs and services was $1.1 billion in fiscal 2017. District expenses were primarily related to educating and caring for students (79%). The District's Community and Nutritional Service programs accounted for 5% of expenses while facility maintenance totaled 8% and fiscal/other fixed cost expenses totaled 2%. District and School Administration and District Support Services accounted for 5% of total expenses during fiscal 2017. (see Figure A-2 on next page).

The cost of all *governmental* activities this year was $1.1 billion.

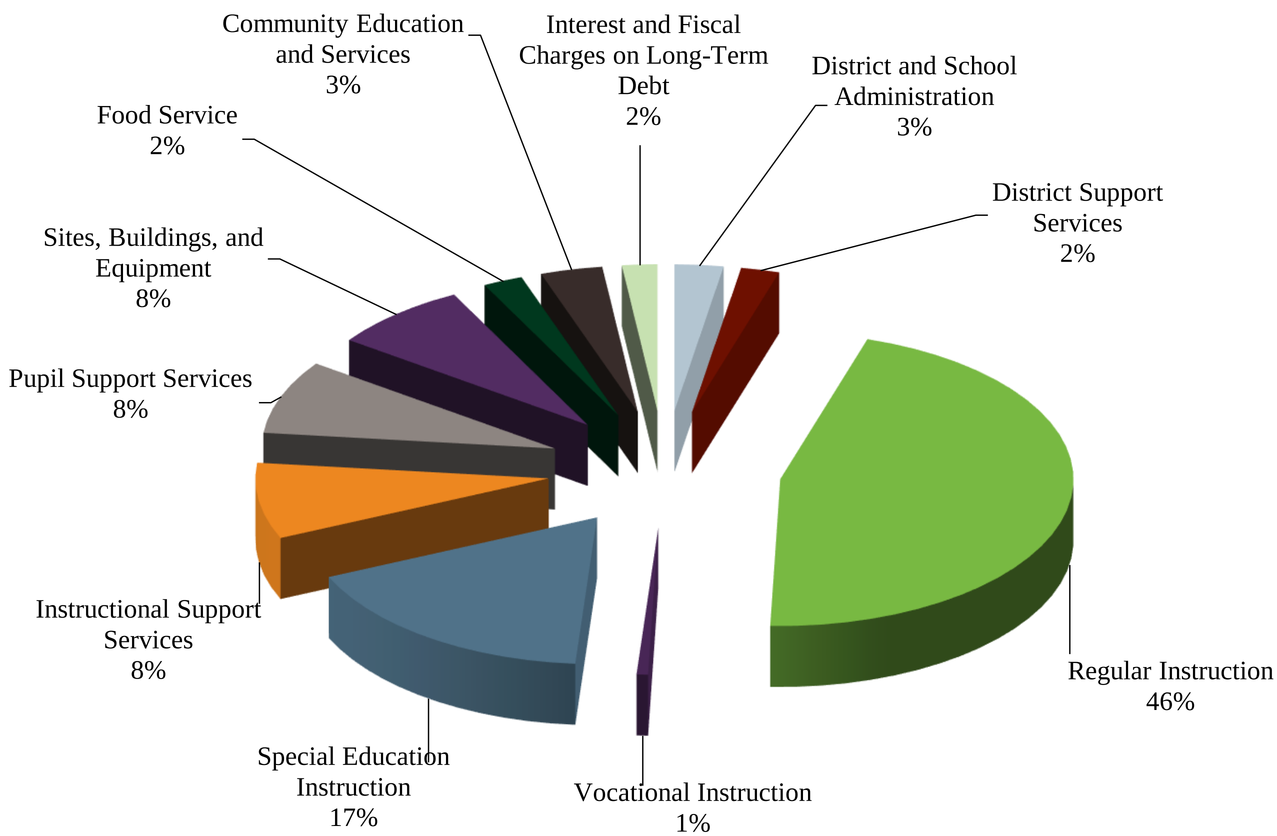
- Some of the cost was paid by the users of the District's programs (Table A-2 previous page, Charges for Services, $17.2 million).
- The federal and state governments subsidized certain programs with grants and contributions (Table A-2, Operating and Capital Grants and Contributions, $167.1 million).
- Most of the District's costs were paid for with local property taxes of $186.0 million, unrestricted state aid of $353.2 million, and other general revenues of $12.6 million.

Figure A-1
Sources of Revenue
Fiscal Year 2017



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-2
Expenses
Fiscal Year 2017



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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

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

	Total Cost of Services 2017	Total Cost of Services 2016	Percentage Change	Net Cost of Services 2017	Net Cost of Services 2016	Percentage Change
Administration	$ 29,036,288	$ 17,878,755	62.41%	$ 26,782,186	$ 15,613,125	71.54%
District support services	22,972,094	23,434,369	-1.97%	22,946,660	23,231,289	-1.23%
Elementary and secondary						
Regular instruction	494,078,827	299,342,502	65.05%	453,780,861	261,744,572	73.37%
Vocational education instruction	6,788,131	4,165,122	62.98%	6,202,898	3,526,338	75.90%
Special education instruction	185,485,643	122,654,412	51.23%	110,033,354	46,471,961	136.77%
Instructional support services	90,336,077	54,061,851	67.10%	86,634,414	50,301,656	72.23%
Pupil support services	87,780,289	66,689,766	31.62%	83,837,963	63,261,934	32.53%
Sites and buildings	82,267,082	57,484,050	43.11%	79,892,755	54,658,823	46.17%
Fiscal and other fixed cost programs	559,310	585,971	-4.55%	(1,184,570)	(565,590)	109.44%
Food service	23,606,809	21,911,207	7.74%	1,084,235	(520,171)	-308.44%
Community education and services	36,961,573	26,915,641	37.32%	16,314,815	3,710,450	339.70%
Interest and fiscal charges						
On long-term debt/depreciation	20,999,111	16,485,498	27.38%	10,265,736	5,485,498	87.14%
Total	$ 1,080,871,234	$ 711,609,144	51.89%	$ 896,591,307	$ 526,919,885	70.16%

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 $305 million, or a $45 million increase over last year. The increase is primarily attributable to unspent bond proceeds for building constructions.

The District's governmental funds reported total expenditures of $800 million and total revenues of $711 million. Based on these results, fund balance would have decreased by $89 million. The District also reported an increase in fund balance of $134 million as a result of new bond issues including bond premiums of $18.7 million during the year. These other sources of financing along with the increase in expenditures over revenues resulted in an overall increase to the *combined* fund balance of $45 million from the prior year.

ENROLLMENT

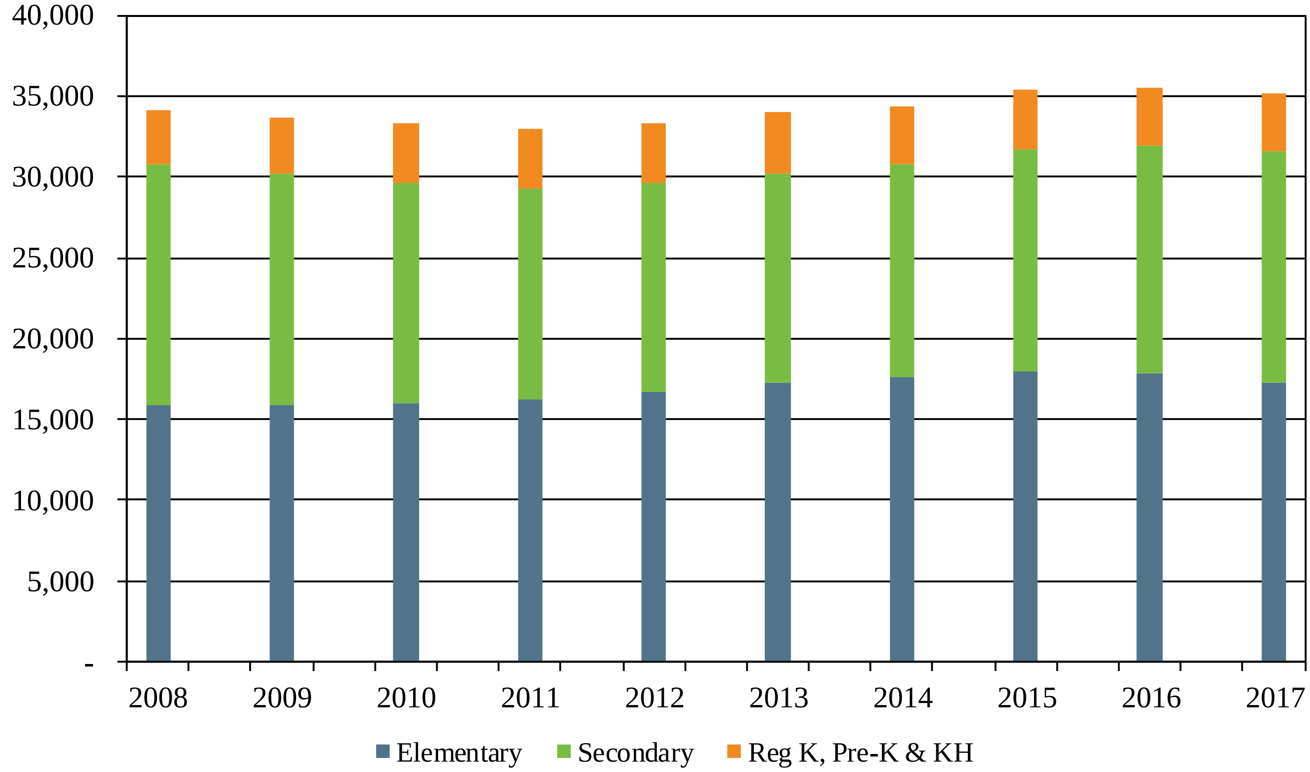
Enrollment is a critical factor in determining revenue. The following chart shows that the number of students has increased over each of the past four years. There was a slight decrease in enrollment over the last year of -0.92%.

Table A-4
Student Enrollment (Average Daily Membership)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Reg K, Pre-K & KH	3,409	3,469	3,708	3,656	3,728	3,789	3,582	3,682	3,587	3,516
Elementary	15,832	15,939	15,982	16,236	16,725	17,218	17,643	17,964	17,866	17,319
Secondary	14,896	14,256	13,671	13,087	12,878	12,985	13,086	13,740	14,019	14,311
Total students for aid	34,137	33,664	33,361	32,979	33,331	33,992	34,311	35,386	35,472	35,146
Percentage change	-4.74%	-1.39%	-0.90%	-1.15%	1.07%	1.98%	0.94%	3.13%	0.24%	-0.92%

ENROLLMENT (CONTINUED)

Figure A-3
Student Enrollment
(Average Daily Membership)



GENERAL FUND

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

Table A-5
General Fund Revenues

	Year Ended June 30, 2017	Year Ended June 30, 2016	Increase (Decrease	Percentage Change
Local sources				
Property taxes	$ 117,942,218	$ 116,602,944	$ 1,339,274	1.15%
Earnings on investments	1,221,560	454,430	767,130	168.81%
Other	16,749,613	17,838,028	(1,088,415)	-6.10%
State sources	402,839,217	410,256,617	(7,417,400)	-1.81%
Federal sources	43,016,218	40,075,526	2,940,692	7.34%
Total	$ 581,768,826	$ 585,227,545	$ (3,458,719)	-0.59%

General Fund revenue decreased by $3.5 million or 0.6%, from the previous year.

Revenue decreased in fiscal year 2017 due to decrease in student enrollment and revenue adjustments by MDE based on final ADM numbers from FY 2015. The decrease was offset by an increase in per pupil formula allowance and increase in property tax levy.

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

1. State Education Finance Appropriations
   A. General Education Aid – The largest share of the education finance appropriation, general education aid, is intended to provide the basic financial support for the education program and is enrollment driven.

   B. Categorical Aids – Categorical revenue formulas are used to meet costs of that program (i.e., special education) or promote certain types of programs (i.e., career and technical aid).

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

GENERAL FUND (CONTINUED)

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

The following schedule presents a summary of General Fund Expenditures.

Table A-6
General Fund Expenditures

	Year Ended June 30, 2017	Year Ended June 30, 2016	Increase (Decrease)	Percentage Change
Salaries	$ 378,367,752	$ 372,393,141	$ 5,974,611	1.60%
Employee benefits	130,707,285	135,232,007	(4,524,722)	-3.35%
Purchased services	69,502,676	70,430,404	(927,728)	-1.32%
Supplies and materials	19,667,669	15,563,198	4,104,471	26.37%
Capital expenditures	2,824,954	10,348,822	(7,523,868)	-72.70%
Other expenditures	4,859,492	2,417,144	2,442,348	101.04%
Total	$ 605,929,828	$ 606,384,716	$ (454,888)	-0.08%

Total General Fund expenditures decreased by $0.5 million or 0.08% from the previous year.

General Fund salaries and benefits increased $1.4 million combined for the year.

DEBT SERVICE FUND

The Debt Service Fund had excess expenditures over revenues of $2.5 million, ending with a fund balance of $25.9 million.

OTHER MAJOR FUNDS

Revenues exceeded expenditures by about $0.5 million in the Food Service Fund and resulted in an increase to fund balance bringing the total fund balance to $2.9 million. In the Community Service Fund, revenues exceeded expenditures by about $1.3 million, resulting in an ending fund balance of about $8.7 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the District had invested approximately $646 million (net of accumulated depreciation) in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7). More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year totaled approximately $32.6 million.

Table A-7

Capital Assets (Net of Depreciation)

	2017	2016	Percentage Change
Land and construction in progress	$ 110,566,162	$ 181,156,351	-38.97%
Other capital assets	535,747,874	459,513,935	16.59%
Total	$ 646,314,036	$ 640,670,286	0.88%

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.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The general education program is the method by which school districts receive the majority of their financial support. The basic general education formula allowance for Minnesota school districts increased slightly in fiscal year 2017 to $6,067 per pupil or 2% from the prior year. With significant union contracts, mandatory compliance cost, uncertain political environment and growing demand on limited resources continue to present challenges in funding education for Minnesota schools.

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

During fiscal year 2015, the District's Board of Directors approved a new strategic plan. The plan is called "Acceleration 2020" and it includes six goals. The new strategic plan is bold, ambitious and seeks to address the disparity gap that exists in Minneapolis Public Schools. The plan also includes ambitious performance targets known as the "5-8-10 Plan". Specifically, this plan calls for the following:

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

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

REQUEST FOR INFORMATION

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

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

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BASIC FINANCIAL STATEMENTS

Minneapolis Public Schools
Special School District No. 1
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments	$ 396,057,827
Cash and investments held by trustee	18,036,748
Receivables	
Property taxes	98,702,876
Other governments	60,584,165
Other	3,741,883
Prepaid items	374,921
Inventory	948,455
Capital assets	
Land and construction in progress	110,566,162
Other capital asset, net of depreciation	535,747,874
Total assets	1,224,760,911
Deferred Outflows of Resources	
Deferred outflows related to pensions	1,595,377,321
Total assets and deferred outflows of resources	$ 2,820,138,232
Liabilities	
Salaries and compensated absences payable	$ 35,707,219
Accounts and contracts payable	22,302,633
Accrued interest	10,717,496
Due to other governmental units	219,037
Unearned revenue	1,303,606
Long-term liabilities	
Portion due within one year	61,829,291
Portion due in more than one year	3,161,255,408
Total liabilities	3,293,334,690
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	166,710,881
Deferred inflows related to pensions	45,459,075
Deferred charge on refunding	83,341
Total deferred inflows of resources	212,253,297
Net Position	
Net investment in capital assets	149,160,083
Restricted for	
General Fund state-mandated reserves	19,894
Debt service	15,931,669
Capital projects	19,772,219
Unrestricted	(870,333,620)
Total net position	(685,449,755)
Total liabilities, deferred inflows of resources, and net position	$ 2,820,138,232

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Total Governmental Activities
Governmental activities					
Administration	$ 29,036,288	$ -	$ 2,254,102	$ -	$ (26,782,186)
District support services	22,972,094	-	25,434	-	(22,946,660)
Elementary and secondary regular instruction	494,078,827	1,038,200	39,259,766	-	(453,780,861)
Vocational education instruction	6,788,131	-	585,233	-	(6,202,898)
Special education instruction	185,485,643	3,405,917	72,046,372	-	(110,033,354)
Instructional support services	90,336,077	91,447	3,610,216	-	(86,634,414)
Pupil support services	87,780,289	55,250	3,887,076	-	(83,837,963)
Sites and buildings	82,267,082	2,374,327	-	-	(79,892,755)
Fiscal and other fixed cost programs	559,310	-	1,743,880	-	1,184,570
Food service	23,606,809	2,048,694	20,473,880	-	(1,084,235)
Community education and services	36,961,573	8,190,904	12,455,854	-	(16,314,815)
Interest and fiscal charges on long-term debt	20,999,111	-	-	10,733,375	(10,265,736)
Total governmental activities	$ 1,080,871,234	$ 17,204,739	$ 156,341,813	$ 10,733,375	(896,591,307)
General revenues					
Taxes					
Property taxes, levied for general purposes					117,353,242
Property taxes, levied for community service					5,676,054
Property taxes, levied for debt service					62,926,501
State aid not restricted to specific purposes					353,255,021
Earnings on investments					1,421,895
Gain on sale of capital assets					7,141
Miscellaneous					11,182,199
Total general revenues					551,822,053
Change in net position					(344,769,254)
Net position - beginning					(340,680,501)
Net position - ending					$ (685,449,755)

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Balance Sheet - Governmental Funds
June 30, 2017

	Major Funds					
	General	Food Service	Community Service	Capital Project-Building Construction	Debt Service	Total Governmental Funds
Assets						
Cash and investments	$ 85,619,508	$ 1,939,704	$ 11,242,777	$ 212,804,228	$ 39,533,140	$ 351,139,357
Cash and investments held by trustee	-	-	-	418,135	17,618,613	18,036,748
Receivables						
Current property taxes receivable	60,530,469	-	2,702,022	-	33,350,694	96,583,185
Delinquent property taxes receivable	1,355,986	-	61,866	-	701,839	2,119,691
Due from Minnesota Department of Education	40,468,116	38,088	1,276,437	-	1,100,536	42,883,177
Due from Federal Government through Minnesota Department of Education	12,886,582	1,072,285	484,454	-	-	14,443,321
Due from Federal Government received directly	1,147,021	-	-	-	-	1,147,021
Due from other governmental units	1,956,957	-	12,498	-	141,191	2,110,646
Other receivables	3,331,896	3,907	122,159	195,131	-	3,653,093
Prepaid items	52,765	-	-	-	-	52,765
Inventory	75,910	872,545	-	-	-	948,455
Total assets	$ 207,425,210	$ 3,926,529	$ 15,902,213	$ 213,417,494	$ 92,446,013	$ 533,117,459
Liabilities						
Salaries and compensated absences payable	$ 26,843,158	$ 70,878	$ 359,774	$ 298,303	$ -	$ 27,572,113
Payroll deductions and employer contributions payable	8,135,106	-	-	-	-	8,135,106
Accounts and contracts payable	8,567,741	822,943	726,076	12,056,513	-	22,173,273
Due to other governmental units	218,026	1,011	-	-	-	219,037
Unearned revenue	425,544	158,882	719,180	-	-	1,303,606
Total liabilities	44,189,575	1,053,714	1,805,030	12,354,816	-	59,403,135
Deferred Inflows of Resources						
Property taxes levied for subsequent year's expenditures	95,583,286	-	5,330,747	-	65,796,848	166,710,881
Unavailable revenue - delinquent property taxes	1,355,986	-	61,866	-	701,839	2,119,691
Total deferred inflows of resources	96,939,272	-	5,392,613	-	66,498,687	168,830,572
Fund Balances						
Nonspendable						
Prepaid items	52,765	-	-	-	-	52,765
Inventory	75,910	872,545	-	-	-	948,455
Restricted for						
Long-term facilities maintenance	-	-	-	83,826,727	-	83,826,727
Contracted alternative programs	19,894	-	-	-	-	19,894
Community education programs	-	-	5,549,459	-	-	5,549,459
Early childhood and family educations programs	-	-	1,051,105	-	-	1,051,105
School readiness	-	-	614,311	-	-	614,311
Adult basic education	-	-	1,278,467	-	-	1,278,467
QSCB/QZAB	-	-	-	-	17,641,582	17,641,582
Building construction	-	-	-	117,235,951	-	117,235,951
Other purposes	3,300,000	2,000,270	211,228	-	8,305,744	13,817,242
Assigned	21,455,251	-	-	-	-	21,455,251
Unassigned	41,392,543	-	-	-	-	41,392,543
Total fund balances	66,296,363	2,872,815	8,704,570	201,062,678	25,947,326	304,883,752
Total liabilities, deferred inflows of resources, and fund balances	$ 207,425,210	$ 3,926,529	$ 15,902,213	$ 213,417,494	$ 92,446,013	$ 533,117,459

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2017

Total fund balances - governmental funds	$ 304,883,752
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Land	35,446,301
Construction in progress	75,119,861
Buildings and improvements, net of accumulated depreciation	524,962,434
Equipment, net of accumulated depreciation	10,785,440
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(382,585,000)
Unamortized bond premiums and discounts	(54,506,071)
Certificate of participation payable	(255,225,000)
Net other post employment benefit obligation	(22,706,432)
Net pension liability	(2,462,565,809)
Deferred charge on refunding	(83,341)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows related to pensions	1,595,377,321
Deferred inflows related to pensions	(45,459,075)
Governmental funds do not report a liability for accrued interest on bonds and certificates of participation until due and payable.	(10,717,496)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	2,119,691
Internal service funds are used by management to charge the cost of workers compensation and general liability insurance to individual funds, as well as severance benefits. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position is:	(296,331)
Total net position - governmental activities	$ (685,449,755)

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	Major Funds					
	General	Food Service	Community Service	Capital Project-Building Construction	Debt Service	Total Governmental Funds
Revenues						
Local sources						
Property taxes	$ 117,942,218	$ -	$ 5,699,513	$ -	$ 63,206,375	$ 186,848,106
Earnings on investments	1,221,560	-	-	888,491	(655,367)	1,454,684
Other	16,749,613	2,115,873	9,294,763	227,348	-	28,387,597
Revenue from state sources	402,839,217	800,128	12,913,883	-	10,970,315	427,523,543
Revenue from federal sources	43,016,218	19,673,753	1,917,627	-	1,743,880	66,351,478
Total revenues	581,768,826	22,589,754	29,825,786	1,115,839	75,265,203	710,565,408
Expenditures						
Current						
Administration	17,384,736	-	-	-	-	17,384,736
District support services	19,613,778	-	-	-	-	19,613,778
Elementary and secondary regular instruction	279,209,325	-	-	-	-	279,209,325
Vocational education instruction	4,018,952	-	-	-	-	4,018,952
Special education instruction	118,988,717	-	-	-	-	118,988,717
Instructional support services	61,076,185	-	-	-	-	61,076,185
Pupil support services	66,342,086	-	-	-	-	66,342,086
Sites and buildings	35,852,999	-	-	34,978,797	-	70,831,796
Fiscal and other fixed cost programs	559,310	-	-	-	-	559,310
Food service	-	21,955,089	-	-	-	21,955,089
Community education and services	58,786	-	28,411,636	-	-	28,470,422
Capital Outlay						
Administration	81,812	-	-	-	-	81,812
District support services	53,044	-	-	-	-	53,044
Elementary and secondary regular instruction	327,279	-	-	-	-	327,279
Vocational education instruction	117,428	-	-	-	-	117,428
Instructional support services	43,529	-	-	-	-	43,529
Pupil support services	138,247		-	-	-	138,247
Sites and buildings	2,063,615	-	-	29,874,753	-	31,938,368
Food service	-	122,396	-	-	-	122,396
Community education and services	-	-	142,580	-	-	142,580
Debt Service						
Principal	-	-	-	-	54,410,000	54,410,000
Interest and fiscal charges	-	-	-	1,021,450	23,344,089	24,365,539
Total expenditures	605,929,828	22,077,485	28,554,216	65,875,000	77,754,089	800,190,618
Excess of revenues over (under) expenditures	(24,161,002)	512,269	1,271,570	(64,759,161)	(2,488,886)	(89,625,210)
Other Financing Sources (Uses)						
Proceeds from sale of capital assets	-	-	-	14,250	-	14,250
Bond issuance	6,440,000	245,000	-	109,149,871	5,129	115,840,000
Bond premium	-	-	-	18,670,496	-	18,670,496
Transfers in	3,300,000	-	-	-	-	3,300,000
Transfers out	-	-	-	(3,300,000)	-	(3,300,000)
Total other financing sources (uses)	9,740,000	245,000	-	124,534,617	5,129	134,524,746
Net change in fund balances	(14,421,002)	757,269	1,271,570	59,775,456	(2,483,757)	44,899,536
Fund Balances						
Beginning of year	80,717,365	2,115,546	7,433,000	141,287,222	28,431,083	259,984,216
End of year	$ 66,296,363	$ 2,872,815	$ 8,704,570	$ 201,062,678	$ 25,947,326	$ 304,883,752

Minneapolis Public Schools
Special School District No. 1
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2017

Net change in fund balances - total governmental funds	$ 44,899,536
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital Asset Additions	38,290,013
Net book value of disposed assets	(7,109)
Depreciation expense	(32,639,154)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premium when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of Activites, 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	(41,905,000)
Long-term facility maintenance proceeds	(51,910,000)
Certificates of participation proceeds	(22,025,000)
Bond premium	(18,670,496)
Repayment of certificates of participation payable	26,170,000
Repayment of bond principal	28,240,000
Change in accrued interest expense	(1,746,397)
Amortization of bond premiums and discounts	5,291,412
Amortization of deferred charge on refunding	(178,587)
Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net revenue (loss) of the internal service funds is reported with governmental activities.	11,793,150
Net post employement benefit obligations are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(6,013,889)
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	
Pension expense	(323,465,424)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(892,309)
Change in net position - governmental activities	$ (344,769,254)

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local sources				
Local property taxes	$ 114,424,468	$ 114,424,468	$ 117,942,218	$ 3,517,750
Earnings on investments	-	-	1,221,560	1,221,560
Other local and county revenues	26,500,000	21,234,655	16,748,958	(4,485,697)
Revenue from state sources	404,530,998	404,856,343	402,839,217	(2,017,126)
Revenue from federal sources	40,500,000	40,500,000	43,016,218	2,516,218
Sales and other conversion of assets	-	-	655	655
Total revenues	585,955,466	581,015,466	581,768,826	753,360
Expenditures				
Current				
Administration	16,527,212	16,908,779	17,384,736	475,957
District support services	15,615,145	16,722,970	19,613,778	2,890,808
Elementary and secondary regular instruction	273,131,522	280,485,355	279,209,325	(1,276,030)
Vocational education instruction	3,521,738	3,899,829	4,018,952	119,123
Special education instruction	112,766,048	116,982,739	118,988,717	2,005,978
Instructional support services	56,035,879	58,849,815	61,076,185	2,226,370
Pupil support services	64,140,401	67,387,222	66,342,086	(1,045,136)
Sites and buildings	35,170,788	35,205,693	35,852,999	647,306
Fiscal and other fixed cost programs	605,947	605,947	559,310	(46,637)
Community education and services	-	218,120	58,786	(159,334)
Capital Outlay				
Administration	5,904	904	81,812	80,908
District support services	5,672,117	-	53,044	53,044
Elementary and secondary regular instruction	572,582	359,492	327,279	(32,213)
Vocational education instruction	-	114,506	117,428	2,922
Special education instruction	-	1,505	-	(1,505)
Instructional support services	27,997	23,804	43,529	19,725
Pupil support services	1,515,700	-	138,247	138,247
Sites and buildings	646,486	1,188,786	2,063,615	874,829
Total expenditures	585,955,466	598,955,466	605,929,828	6,974,362
Excess of revenues under expenditures	-	(17,940,000)	(24,161,002)	(6,221,002)
Other Financing Sources				
Bond issuance	-	4,940,000	6,440,000	1,500,000
Transfers in	-	3,300,000	3,300,000	-
Total other financing sources	-	8,240,000	9,740,000	1,500,000
Net change in fund balance	$ -	$ (9,700,000)	(14,421,002)	$ (4,721,002)
Fund Balance				
Beginning of year			80,717,365	
End of year			$ 66,296,363	

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Special Revenue Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Other local and county revenues	$ 20,000	$ 20,000	$ 67,179	$ 47,179
Revenue from state sources	845,811	845,811	800,128	(45,683)
Revenue from federal sources	18,367,405	18,367,405	19,673,753	1,306,348
Sales and other conversion of assets	2,229,956	2,229,956	2,048,694	(181,262)
Total revenues	21,463,172	21,463,172	22,589,754	1,126,582
Expenditures				
Current				
Food service	21,294,578	21,450,778	21,955,089	504,311
Capital outlay				
Food service	256,200	100,000	122,396	22,396
Total expenditures	21,550,778	21,550,778	22,077,485	526,707
Excess of revenues over (under) expenditures	(87,606)	(87,606)	512,269	599,875
Other Financing Sources				
Bond issuance	-	-	245,000	245,000
Net change in fund balance	$ (87,606)	$ (87,606)	757,269	$ 844,875
Fund Balance				
Beginning of year			2,115,546	
End of year			$ 2,872,815	

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Special Revenue Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local sources				
Local property taxes	$ 5,464,527	$ 5,464,527	$ 5,699,513	$ 234,986
Other local and county revenues	9,185,487	9,185,487	9,294,763	109,276
Revenue from state sources	12,549,465	14,141,441	12,913,883	(1,227,558)
Revenue from federal sources	1,736,567	1,736,567	1,917,627	181,060
Total revenues	28,936,046	30,528,022	29,825,786	(702,236)
Expenditures				
Current				
Community education and services	29,412,144	31,194,742	28,411,636	(2,783,106)
Capital outlay				
Community education and services	347,300	156,678	142,580	(14,098)
Total expenditures	29,759,444	31,351,420	28,554,216	(2,797,204)
Excess of revenues over (under) expenditures	$ (823,398)	$ (823,398)	1,271,570	$ 2,094,968
Fund Balance				
Beginning of year			7,433,000	
End of year			$ 8,704,570	

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Statement of Net Position - Proprietary Fund
Internal Service Fund
June 30, 2017

Assets	
Current assets	
Cash and cash equivalents	$ 44,918,470
Accounts receivable	88,790
Prepaid items	322,156
Total assets	$ 45,329,416
Liabilities	
Current liabilities	
Accounts payable	$ 129,360
Accrued severance	3,043,746
Loss and loss adjustment reserves	
Workers' compensation	3,312,165
Incurred but not reported reserves	
Accrued health insurance benefits	3,548,380
Total current liabilities	10,033,651
Noncurrent liabilities	
Loss and loss adjustment reserves	
Workers' compensation	3,864,190
Incurred but not reported reserves	
Workers' compensation	3,864,190
Property/casualty	470,000
Accrued severance	27,393,716
Total noncurrent liabilities	35,592,096
Total liabilities	$ 45,625,747
Net Position	
Unrestricted	$ (296,331)

Minneapolis Public Schools
Special District No. 1
Statement of Revenues, Expenses, and Change in Fund
Net Position - Proprietary Fund
Internal Service Fund
Year Ended June 30, 2017

Operating Revenue	
Local sources - charges for services	$ 43,860,327
Operating Expenses	
Loss and loss adjustments	213,100
Claims administration	4,033,395
Workers compensation and other benefits	5,108,890
Self-Insured Medical Benefits	20,764,275
Severance	2,034,226
Total operating expenses	32,153,886
Operating income	11,706,441
Nonoperating Revenue	
Insurance recoveries	119,498
Loss on investments	(32,789)
Total nonoperating revenue	86,709
Change in net position	11,793,150
Net Position	
Beginning of year	(12,089,481)
End of year	$ (296,331)

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Statement of Cash Flows - Proprietary Fund
Internal Service Fund
June 30, 2017

Cash Flows - Operating Activities	
Receipts from premiums	$ 44,661,422
Claims administration	(4,036,410)
Claims paid	(23,011,666)
Severance Benefits paid	(2,487,068)
Net cash flows - operating activities	15,126,278
Cash flows - Noncapital Financing Activities	
Insurance proceeds	119,498
Cash Flows - Investing Activities	
Investment loss	(32,789)
Net change in cash and cash equivalents	15,212,987
Cash and Cash Equivalents	
Beginning of year	29,705,483
End of year	$ 44,918,470
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	$ 11,706,441
Adjustments to reconcile operating income to net cash flows - operating activities	
Accounts payable	(1,154,529)
Prepaid insurance	(255,521)
Accounts receivable	801,095
Loss and loss adjustment reserves	933,254
Accrued health insurance benefits	3,548,380
Accrued compensated absences	(452,842)
Net adjustments	3,419,837
Net cash flows - operating activities	$ 15,126,278

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Fiduciary Net Position
June 30, 2017

	Other Post Employment Benefits Irrevocable Trust Fund
Assets	
Current	
Mutual funds	$ 16,218,696
Net Position Restricted For Postemployment Benefits Other than Pensions	$ 16,218,696

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2017

	Other Post Employment Benefits Irrevocable Trust Fund
Additions	
Investment income	$ 1,272,204
Change in net position	1,272,204
Net Position Restricted for Postemployment Benefits Other than Pensions	
Beginning of year	14,946,492
End of year	$ 16,218,696

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Special School District No. 1 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

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

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation
The Government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary fund. The fiduciary fund is only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

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

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

Separate fund financial statements are provided for the governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: Other Post Employment Benefits (OPEB) Irrevocable Trust Fund. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide statements.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

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

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

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

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

The District reports unearned revenue on its balance sheet and government-wide Statement of Net Position. Unearned revenues arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when the District has a legal claim to the resources, the unearned revenue is removed and revenue is recognized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

Major Governmental Funds:

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

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

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues included in this fund include property taxes restricted for Community Service purposes and tuition and fees charged for Community Education along with state and federal aid.

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

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

Proprietary Fund:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

Proprietary Funds (Continued):

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

1. Self-insurance activities for property, liability, health, and workers' compensation risks.

2. Accumulate and record the liability for accrued compensated absences (severance and vacation).

Fiduciary Fund:

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

E. Budgeting

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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

Revenues (including other financing sources)	Original Budget	Amendments	Amended Budget
General Fund	$ 585,955,466	$ 3,300,000	$ 589,255,466
Community Service Fund	29,398,156	1,591,976	30,990,132
Expenditures (including other financing uses)			
General Fund	$ 585,955,466	$ 13,000,000	$ 598,955,466
Community Service Fund	29,759,444	1,591,976	31,351,420

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

F. Cash and Investments

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

District Governmental Funds

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments (Continued)

District Governmental Funds (Continued)
Cash and investments at June 30, 2017 were comprised of deposits, negotiable certificates of deposit, shares in the Minnesota School District Liquid Asset Fund (MSDLAF), government securities, FHLB, FHLMC, FNMA, and money market funds.

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

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

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

OPEB Irrevocable Trust Fund
These funds represent investments administered by the District's OPEB Irrevocable Trust Fund investment managers. As of June 30, 2017, they were comprised of mutual funds. The District's investment policy extends to the OPEB Irrevocable Trust Fund investments.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Inventory

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

I. Prepaid Items

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

J. Property Taxes

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

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

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

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 1899, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in the fiscal year 2017. The remaining portion of the levy will be recognized when measurable and available.

K. Deferred Outflows/Inflows of Resources

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

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

L. Capital Assets

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

Asset	Useful Life
Buildings	50 years
Building improvements	20 years
Equipment	10 years
Vehicles	8 years
Computers	5 years

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

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

M. Long-Term Obligations

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

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

N. Compensated Absences

The District's employee vacation and sick leave policies grant to certain groups of employees, if certain conditions are met (see Note 12), a specific number of days of vacation with pay and payment for unused sick leave upon retirement. On June 30, 1998, the District established an internal service fund to accrue for and fund the liability for vacation earned and not yet taken, vested sick pay, salary-related payments, and retiree health insurance benefits due to certain active and retired employees.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions

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

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

P. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance and is self-insured for some risks as indicated in Note 11. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2017.

Q. Restricted Assets

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

R. Net Position

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

S. Fund Balance

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Balance (Continued)

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

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

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

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

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

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

T. Use of Estimates

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the Statement of Net Position and the Balance Sheet as "Cash and Investments." In accordance with *Minnesota Statutes*, the District maintains deposits at financial institutions which are authorized by the District's Board.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows *Minnesota Statutes* for deposits. *Minnesota Statutes* require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository. As of June 30, 2017, the District's deposits with a bank balance of $15,068,717 were exposed to custodial credit risk because the balance at one financial institution was not fully insured by FDIC or secured by pledged collateral in the amount of $59,769.

As of June 30, 2017, the book value of the District's deposits is $11,520,036.

B. Investments

Investment Policy

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

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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk
This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than $5,000,000 of the District's portfolio will be invested in the securities of any single commercial paper issuer.

Custodial Credit Risk
This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. GASB 40 requires disclosure of all uninsured investment securities purchased by the District or held as collateral on deposits or investments that are not registered in the name of the , and held by the counterparty to the investment transactions. The District's investments held by one broker-dealer were insured by SIPC or other supplemental insurance as of June 30, 2017. However, each investment brokerage firm may have a limit to their supplemental insurance and because of the size of the District's portfolio in relation to the brokerage firm's excess SIPC coverage limits, the portion of the supplemental policy applicable to the District's portfolio is unknown. In addition to these investments, the District also maintains investments in another custodial account. These investments are not registered in the District's name, but in the custodian's name for the benefit of the District.

Interest Rate Risk
This is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates. The District's investment policy states that investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, taking into account constraints on risk and other criteria requirements. As of June 30, 2017, the market values, duration, and percent allocation of the District's investments were as listed below.

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Investment Type	Fair Value	Weighted Average Maturities (In Years)	Percent Allocation	Credit Rating
Pooled				
MSDLAF+ Liquid Class	$ 83,125,206	N/A	22.37%	AAAm
MSDLAF+ Max Class	81,444,617	N/A	21.92%	AAAm
MSDLAF Term Series	45,130,000	0.17	12.14%	N/A
Federal Home Loan Bank (FHLB)	23,573,445	0.98	6.34%	AA+
U.S. Treasury Securities	50,662,339	1.20	13.63%	N/A
Fannie Mae	11,234,533	1.85	3.02%	AA+
Freddie Mac	12,441,236	1.44	3.35%	AA+
Brokered Certificates of Deposit	488,000	1.17	0.13%	N/A
Commercial Paper	63,530,052	0.31	17.10%	A1
Total pooled investments	371,629,428		100.00%	
Non-pooled				
Cash with fiscal agent				
Cash held by trustee	398,023	N/A	2.21%	N/A
U.S. Treasury Securities	17,638,725	7.51	97.79%	N/A
Total cash with fiscal agent	18,036,748		100.00%	
Health Insurance				
Cash/Money Market	12,908,364	NA	100.00%	N/A
OPEB Trust Fund				
Mutual Funds	16,202,895	N/A	99.90%	N/A
Cash/Money Market Funds	15,800	N/A	0.10%	N/A
Total OPEB Trust Fund	16,218,695		100.00%	
Total non-pooled investments	47,163,807			
Total investments	$ 418,793,235			

The District has the following recurring fair value measurements as of June 30, 2017:

- Pooled Investments of $50,520,201 are valued using Level 1 inputs
- Pooled Investments of $111,172,070 are valued using Level 2 inputs
- Nonpooled investments with fiscal agent of $17,638,725 are valued using Level 1 inputs
- Nonpooled OPEB investments of $16,218,685 are valued using a matrix pricing model (Level 2 inputs)

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of total deposits and investments:

Deposits (Note 2.A.)	$ 11,520,036
Investments - pooled (Note 2.B.)	371,629,428
Investments - non-pooled (Note 2.B.)	47,163,807
Total deposits and investments	$ 430,313,271

Deposits and investments are presented in the June 30, 2017, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 396,057,827
Cash with fiscal agent	18,036,748
Statement of Fiduciary Net Position	
Mutual funds	16,218,696
Total deposits and investments	$ 430,313,271

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 35,446,301	-	$ -	$ 35,446,301
Construction in progress	145,710,050	36,186,253	106,776,442	75,119,861
Total capital assets not being depreciated	181,156,351	36,186,253	106,776,442	110,566,162
Capital assets being depreciated				
Buildings	1,001,946,581	106,507,684	-	1,108,454,265
Machinery and equipment	71,446,437	2,372,518	29,788,792	44,030,163
Total capital assets being depreciated	1,073,393,018	108,880,202	29,788,792	1,152,484,428
Less accumulated depreciation for				
Buildings	553,350,320	30,141,511	-	583,491,831
Machinery and equipment	60,528,763	2,497,643	29,781,683	33,244,723
Total accumulated depreciation	613,879,083	32,639,154	29,781,683	616,736,554
Total capital assets being depreciated, net	459,513,935	76,241,048	7,109	535,747,874
Governmental activities, capital assets net	$ 640,670,286	$ 112,427,301	$ 106,783,551	$ 646,314,036

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $32,639,154 for the year ended June 30, 2017, was charged to the following governmental functions:

Administration	$ 105,191
District support services	223,046
Regular instruction	19,091,817
Vocational education instruction	21,108
Special education instruction	281,842
Community education	70,594
Instructional support services	74,623
Pupil support services	1,417,209
Food service	299,123
Sites and buildings	11,054,601
Total depreciation expense, governmental activities	$ 32,639,154

NOTE 4 – LEASES

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

NOTE 5 – LONG-TERM LIABILITIES

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

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Maturity Date	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds, including refunding bonds						
	12/15/09	1.15%	$ 17,200,000	2/15/2025	$ 17,200,000	$ -
	12/28/10	2.00-4.00%	17,940,000	2/1/2018	3,175,000	3,175,000
	12/28/10	2.00-4.00%	7,750,000	2/1/2021	1,620,000	390,000
	12/28/10	5.13%	19,785,000	12/15/2025	19,785,000	-
	07/26/11	2.00-4.00%	10,525,000	2/1/2020	4,765,000	1,545,000
	12/01/11	3.00-4.00%	16,770,000	2/1/2027	9,275,000	1,020,000
	12/01/11	3.80%	4,260,000	12/15/2025	4,260,000	-
	12/18/12	2.00-3.00%	21,220,000	2/1/2033	16,170,000	1,355,000
	12/18/12	2.00-3.00%	18,550,000	2/1/2033	15,290,000	880,000
	12/18/12	3.00-4.00%	9,285,000	2/1/2022	5,615,000	1,045,000
	12/18/12	2.00%	16,530,000	2/1/2022	10,655,000	2,045,000
	12/04/13	3.00-4.00%	20,525,000	2/1/2029	16,080,000	1,635,000
	12/04/13	4.00-5.00%	38,090,000	2/1/2034	34,460,000	1,400,000
	12/23/14	2.00-3.00%	21,840,000	2/1/2030	18,385,000	1,840,000
	12/23/14	3.00-4.00%	45,270,000	2/1/2030	40,725,000	2,495,000
	12/23/14	2.00-5.00%	11,300,000	2/1/2023	8,885,000	1,330,000
	12/29/15	2.34%	21,275,000	2/1/2031	19,580,000	1,840,000
	12/29/15	2.51%	34,755,000	2/1/2031	33,100,000	1,830,000
	12/29/15	1.69%	10,830,000	2/1/2024	9,745,000	1,190,000
	12/22/16	5.00%	41,905,000	2/1/2037	41,905,000	1,715,000
	12/22/16	5.00%	51,910,000	2/1/2035	51,910,000	1,295,000
			457,515,000		382,585,000	28,025,000
Certificates of participation						
	12/28/10	6.50%	12,990,000	4/1/2036	12,990,000	-
	12/28/10	1.40-6.5%	28,235,000	4/1/2030	21,015,000	1,320,000
	07/26/11	2.00-5.00%	31,255,000	2/1/2020	9,645,000	3,985,000
	12/01/11	2.00-3.20%	19,705,000	2/1/2023	11,505,000	1,770,000
	12/04/13	5.00%	41,125,000	2/1/2021	20,785,000	7,530,000
	12/23/14	4.00-5.00%	125,570,000	2/1/2030	115,065,000	6,505,000
	12/29/15	2.67%	44,475,000	2/1/2031	42,195,000	2,470,000
	12/22/16	5.00%	22,025,000	2/1/2032	22,025,000	320,000
			325,380,000		255,225,000	23,900,000
Bond premium					54,506,071	-
Self insurance liability and compensated absences					45,496,387	6,355,911
Total long-term liabilities					$ 737,812,458	$ 58,280,911

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Year Ending	Certificates of Particpation Payable		G.O. Bonds	
June 30,	Principal	Interest	Principal	Interest
2018	$ 23,900,000	$ 11,921,020	$ 28,025,000	$ 15,244,257
2019	24,420,000	10,742,198	26,495,000	13,656,893
2020	19,695,000	9,607,353	27,170,000	12,650,193
2021	17,505,000	8,707,955	26,090,000	11,568,343
2022	15,435,000	7,918,580	25,545,000	10,555,693
2023-2027	78,855,000	29,022,255	142,255,000	37,633,883
2028-2032	66,450,000	10,187,725	79,685,000	15,131,306
2033-2037	8,965,000	1,483,300	27,320,000	2,810,725
Total	$ 255,225,000	$ 89,590,386	$ 382,585,000	$ 119,251,293

C. Description of Long-Term Liabilities

General Obligation School Building Bonds

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

On December 22, 2016, the District issued $41,905,000 of General Obligation School Building Bonds, Series 2016A. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

On December 22, 2016, the District issued $51,910,000 of General Obligation Long-Term Facilities Maintenance Bonds, Series 2016B. The proceeds of this issue were deposited into the construction fund to finance certain long-term facilities maintenance projects of the District.

On December 22, 2016, the District issued $22,025,000 of Full-Term Certificates of Participation, Series 2016C. The proceeds of this issue were deposited into the construction fund, general fund, and food service special revenue fund to finance certain capital projects of the District.

Self Insurance Liability and Compensated Absences

See Notes 11 and 12 for detailed information on the District's Self Insurance Plan and Compensated Absences.

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

	June 30, 2016	Additions	Retirements	June 30, 2017
Governmental activities				
Bonds payable				
General obligation bonds	$ 317,010,000	$ 93,815,000	$ (28,240,000)	$ 382,585,000
Bond premium	41,126,988	18,670,495	(5,291,412)	54,506,071
Certificates of participation payable	259,370,000	22,025,000	(26,170,000)	255,225,000
Self insurance reserves and compensated absences	41,467,595	4,028,792	-	45,496,387
Total governmental activity long-term liabilities	$ 658,974,583	$ 138,539,287	$ (59,701,412)	$ 737,812,458

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

NOTE 6 – FUND BALANCES

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

NOTE 6 – FUND BALANCES (CONTINUED)

Restricted and nonspendable/assigned fund balances at June 30, 2017, are as follows:

	Restricted	Nonspendable/ Assigned
General Fund		
Nonspendable for prepaid items	$ -	$ 52,765
Nonspendable for inventory	-	75,910
Restricted for contracted alternative programs	19,894	-
Restricted for capital projects	3,300,000	-
Assigned for referendum - class size	-	2,728,563
Assigned for alternative compensation	-	530,155
Assigned for reemployment insurance	-	579,628
Assigned for site carryover	-	17,616,905
Total General Fund	3,319,894	21,583,926
Special Revenue Funds		
Food Service Fund		
Restricted for other purposes	2,000,270	-
Nonspendable for inventory	-	872,545
Community Service Fund		
Restricted for school readiness	614,311	-
Restricted for adult basic education	1,278,467	-
Restricted for community education programs	5,549,459	-
Restricted for early childhood and family	1,051,105	
Restricted for other purposes	211,228	-
Total special revenue funds	10,704,840	872,545
Capital Projects - Building Construction Fund		
Restricted for long-term facilities maintenance	83,826,727	-
Restricted for building construction	117,235,951	-
Total Building Construction Fund	201,062,678	-
Debt Service Fund		
Restricted for QSCB/QZAB	17,641,582	-
Restricted for other purposes	8,305,744	-
Total Debt Service Fund	25,947,326	-
Total all funds	$ 241,034,738	$ 22,456,471

Restricted for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12). The balance in the General Fund as of June 30, 2017 is a deficit (negative) $194,164, and is presented within unassigned fund balance in the General Fund for the purposes of reporting in accordance with generally accepted accounting principles.

NOTE 6 – FUND BALANCES (CONTINUED)

Restricted for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan. This balance as of June 30, 2017 is a deficit (negative) $161,640, which is presented within unassigned fund balance in the General Fund for the purposes of reporting in accordance with generally accepted accounting principles.

Restricted for Contracted Alternative Program – Pursuant to *Minnesota Statutes* 124D.68, subd. 3d and 124D.69, subd. 1, districts must reserve at least 95% of the average general education revenue, less basic skills revenue, per pupil unit times the number of pupil units for pupils, attending this program and the amount of basic skills revenue generated by pupils attending the program according to *Minnesota* S*tatutes* 126C.10, subd.4.

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

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

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

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

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

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association

The District participates in various pension plans, total pension expense for the year ended June 30, 2017, was $405,480,036. The components of pension expense are noted in the following plan summaries.

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

Teachers' Retirement Association (Continued)

A. Plan Description

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

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the city of St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. Benefits Provided

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

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

Tier I Benefits

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier I Benefits (Continued)

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

- 3% per year early retirement reduction factor for all years under normal retirement age.

- Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

Tier II Benefits

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

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

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

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2015, June 30, 2016, and June 30, 2017, were:

	Employee	Employer
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 354,961,140
Deduct Employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	(442,978)
Total employer contributions	354,544,518
Total non-employer contributions	35,587,410
Total contributions reported in schedule of employer and non-employer pension allocations	$ 390,131,928

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
Cost of living adjustment	2.00%
Mortality Assumption	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of set rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
Total	100 %	

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

E. Discount Rate

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at the prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2017, the District reported a liability of $2,051,138,229 for its proportionate share of the net pension liability. In addition, the net pension liability allocated to the district under a lump sum direct aid payment related to the District's merger into the fund is $137,556,710 for a total liability allocated to the District of $2,188,694,939. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 8.5993% at the end of the measurement period and 7.5412% for the beginning of the year. An additional 0.5767% was allocated at June 30, 2016 under the direct aid payment agreement.

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

District's proportionate share of net pension liability	$ 2,188,694,939
State's proportionate share of the net pension liability associated with the District	205,879,771

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the District recognized pension expense of $354,171,306. It recognized $28,747,711 as an increase to this pension expense for the support provided by direct aid.

On June 30, 2017, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 20,194,017	$ 61,020
Net difference between projected and actual earnings on plan investments	93,668,465	-
Changes of assumptions	1,244,163,242	-
Changes in proportion	54,544,960	15,815,807
Contributions to TRA subsequent to the measurement date	36,241,909	-
Total	$ 1,448,812,593	$ 15,876,827

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

$36,241,909 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

2018	$ 274,474,714
2019	274,474,887
2020	305,004,636
2021	289,258,109
2022	253,481,511
Total	$ 1,396,693,857

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1percent lower and 1percent higher.

	District proportionate share of NPL		
	1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
Standard share	$ 2,642,378,715	$ 2,051,138,229	$ 1,569,592,130
Direct aid share	177,207,424	137,556,710	105,262,496

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

H. Pension Plan Fiduciary Net Position

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

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

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

Public Employees' Retirement Association (Continued)

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2017. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2017. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were $15,958,421. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2016, the District reported a liability of $273,870,870 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $3,577,010. The net pension liability was measured as of June 30, 1899, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 1899, through June 30, 1899, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 1899, the District's proportion was 3.3730%, which was a decrease of 0.1806% from its proportion measured as of June 30, 1899.

For the year ended June 30, 2017, the District recognized pension expense of $51,308,730 for its proportionate share of General Employees Plan's pension expense. Included in this amount, the District recognized $1,066,570 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At June 30, 2017, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 472,814	$ 22,562,527
Changes in actuarial assumptions	56,799,350	-
Difference between projected and actual investments earnings	36,082,975	-
Changes in proportion and differences between contributions made and District's proportion share of contributions	37,251,168	7,019,721
District's contributions to PERA subsequent to the measurement date	15,958,421	-
Total	$ 146,564,728	$ 29,582,248

$15,958,421 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	$ 35,225,489
2019	31,577,380
2020	24,328,619
2021	9,892,571
2022	-
Total	$ 101,024,059

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 1899, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

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

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

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	100%	

F. Discount Rates

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 388,977,800	$ 273,870,870	$ 179,054,086

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

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

The District follows Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of July 1, 2015. The District's previous actuarial report for this liability was July 1, 2013.

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 or TRA and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the District's health benefits program until age 65. Pursuant to the provisions of the plan, retirees are required to pay varying percentages of the total premium cost. The plan does not issue a publically available financial report.

B. Funding Policy

The District funds its OPEB obligation on a pay as you go basis. For fiscal year 2017, the District contributed $2,356,085 to the plan.

C. Annual Other Post Employment Benefit Cost and Net Other Post Employment Benefit Obligation

The District's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The table on the following page shows the components of the District's annual OPEB cost for 2017, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual Other Post Employment Benefit Cost and Net Other Post Employment Benefit Obligation (Continued)

Annual required contribution	$ 8,990,196
Interest on net OPEB obligation	404,559
Adjustment to ARC	(1,024,781)
Annual OPEB cost (expense)	8,369,974
Benefit payments (made outside of trust)	(435,772)
Implicit subsidy	(1,920,313)
Increase in net OPEB obligation	6,013,889
Net OPEB obligation - beginning of year	16,692,543
Net OPEB obligation - end of year	$ 22,706,432

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obigation
06/30/17	$ 8,369,974	$ 2,356,085	28%	$ 22,706,432
06/30/16	8,568,525	1,815,523	21%	16,692,543
06/30/15	7,382,177	4,343,166	59%	9,939,540

D. Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the District's actuarial accrued liability (AAL) was $61,123,575. The District had assets actuarially valued at $14,637,387 for an unfunded actuarial accrued liability (UAAL) of $46,486,188. The annual payroll for active employees covered by the plan in the actuarial valuation was $363,751,046 for a ratio of UAAL to covered payroll of 12.8%.

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

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

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

In the July 1, 2015 actuarial valuation, the individual entry age normal as a level percentage of payroll cost method was used. The actuarial assumptions include a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of the District. The annual healthcare cost trend rate is 9.5% initially, reduced incrementally to an ultimate rate of 5.0% after ten years. The unfunded actuarial accrued liability is being amortized as a percent of payroll over a closed 30-year period.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN – OPEB TRUST

A. Plan Description

The District administers the defined benefit OPEB plan – a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees of the District.

Management of the defined benefit OPEB plan is vested in the Board of Education, which consists of nine members.

B. Members

At June 30, 2017, the District's defined benefit OPEB plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	167
Active employees	6,822
Total	6,989

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN – OPEB TRUST (CONTINUED)

C. Benefits Provided

The District provides health and dental insurance benefits for certain retired employees under a single-employer fully-insured plan. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan.

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with the third-party insurer. The required contributions are based on projected pay-as-you-go financing requirements.

E. Investment Policy

The District's policy in regard to the allocation of invested assets is established and may be amended by the Board of Education by a majority vote of its members. It is the policy of the Board of Education to purse an investment strategy that are consistent with a prudent growth model for the funds invested. The following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Fixed income	50 %
Domestic equity	33
International equity	17
Alternative assets	0
Unallocated cash	0
Total	100 %

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expenses, was 8.97 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN – OPEB TRUST (CONTINUED)

E. Investment Policy (Continued)

The components of the net OPEB liability of the City at June 30, 2017 were as follows:

Total OPEB liability	$	74,764,503
Plan fiduciary net position		(16,218,696)
District's net OPEB liability	$	58,545,807
Plan fiduciary net position as a percentage of the total OPEB liability		21.69%

F. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Investment rate of return	4.50%, net of OPEB plan investment expense, including inflation
Salary increases	3.50%, including inflation
Inflation	2.50%
Healthcare cost trend increases	9.5% initially, decreasing 0.5% per year to an ultimate rate of 5.0%

Mortality rates were based on the RP-2000 Employee Generational, annuitant generational, and disabled mortality Tables for Males or Females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2014 – June 30, 2015.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN – OPEB TRUST (CONTINUED)

F. Actuarial Assumptions (Continued)

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

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	2.5 %
Domestic equity	6.0
International equity	7.0
Alternative assets	0.0
Unallocated cash	0.0

G. Discount Rate

The discount rate used to measure the total OPEB liability was 4.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 4.5% as well as the liability measured using 1 percent lower and 1 percent higher than the current discount rate.

	1% decrease (3.5%)	Current (4.5%)	1% increase (5.5%)
Net OPEB Liability	$ 79,912,503	$ 74,764,503	$ 70,013,503

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

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN – OPEB TRUST (CONTINUED)

H. OPEB Liability Sensitivity (Continued)

	1% decrease (8.5% decreasing to 4.0%) over 10 years	Current (9.5% decreasing to 5.0%) over 10 years	1% increase (10.5% decreasing to 6.0%) over 10 years
Net OPEB Liability	$ 68,400,503	$ 74,764,503	$ 82,233,503

NOTE 10 – 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 $11,510,545 as disclosed in Note 11 for general liability, auto liability, and worker's compensation claims.

C. Teachers Retirement Association

The District is required to levy for and contribute amounts to Minnesota Teachers Retirement Association under Minnesota statutes totaling $2,250,000 each year, due by October 1. These amounts are further described in Note 7 as direct aid contributions.

D. Construction Commitments

The District has in process various multi-year construction and repair projects which were not completed in the current fiscal year. As of June 30, 2017, outstanding commitments for these multi-year projects total approximately $43,942,656.

NOTE 11 – 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.

NOTE 11 – 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, 2017 and 2016 was $2,000,000.

Liabilities of $11,040,545 have been recorded in the Self-Insurance Fund for known workers' compensation claims and for claims incurred but not reported as of June 30, 2017. The recorded reserves are actuarially evaluated annually and adjusted accordingly. The discount rate used at June 30, 2017 was 2.5%.

The District became self-insured for general liability for claims incurred after January 1, 1990 through June 30, 1999, and for claims incurred after July 1, 2001 (the self-insurance period). The District purchased general liability insurance from Royal Insurance covering the period from July 1, 1999 through June 30, 2001. Claims incurred during the self-insurance period are the responsibility of the District. *Minnesota Statutes* limit the maximum liability of a public employer to $300,000 per claimant and $1,500,000 for claims from a single event. There are several lawsuits pending in which the District is involved. The District estimates that the potential claims against the District that are not covered by insurance or reserves resulting from such litigation would not materially affect the District's financial statements. Liabilities of $470,000 have been established to cover such claims as of June 30, 2017.

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

Claims incurred but not reported or case reserves at June 30, 2015	$ 8,842,906
Claims incurred, fiscal year 2016	10,353,881
Claims paid, fiscal year 2016	(8,619,496)
Claims incurred but not reported or case reserves at June 30, 2016	10,577,291
Claims incurred, fiscal year 2017	5,321,990
Claims paid, fiscal year 2017	(4,388,736)
Claims incurred but not reported or case reserves at June 30, 2017	$ 11,510,545

The District maintains commercial coverage for property insurance.

NOTE 11 – RISK MANAGEMENT (CONTINUED)

Beginning January 1, 2017, the District began to self-insure for health benefits. A stop-loss policy was purchased that limits the District's loss to $300,000 at which point the reinsurance coverage is available. The District also has aggregate stop-loss coverage in place which limits the District's liability to 120% of the prior year's claims. Settled claims have not exceeded this commercial coverage in any of the past three years.

The governmental funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2017 is $3,548,380 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

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

	Balance, Beginning of Year	Claims, Expense, and Estimates	Claims Payments	Balance, End of Year
2016-2017	$ -	$ 20,764,275	$ (17,215,895)	$ 3,548,380

NOTE 12 – 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 50% 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.

NOTE 12 – COMPENSATED ABSENCES (CONTINUED)

A. Civil Service (Continued)

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

B. Administrators

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

C. 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.

D. Principals

Employees hired on or before July 1, 2014, and who are at least 55 years of age or who are credited with 30 years of service receive severance pay amounting to 60% of unused sick leave. Employees hired after July 1, 2014, receive payment up to 100 days of unused sick leave at 60% of the daily rate of pay.

NOTE 13 – SUBSEQUENT EVENT

Subsequent to year-end, the District approved the issuance of General Obligation School Building Bonds, Series 2017A for $28,895,000; General Obligation Long-Term Facilities Maintenance Bonds, Series 2017B for $51,565,000; and Certificates of Participation, Series 2017C for $38,565,000.

NOTE 14 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB Statement No. 75 relating to accounting and financial reporting for post employment benefits other than pensions. The new Statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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REQUIRED SUPPLEMENTARY INFORMATION

Minneapolis Public Schools
Special School District No. 1
Schedule of Funding Progress –
Other Post Employment Benefits
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/15	$ 14,637,387	$ 61,123,575	$ 46,486,188	23.9%	$363,751,046	12.8%
07/01/13	14,920,422	70,587,398	55,666,976	21.1%	351,399,830	15.8%
07/01/11	-	83,387,021	83,387,021	0.0%	326,581,564	25.5%

Schedule of Employer Contributions –
Other Post Employment Benefits
June 30, 2017

Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Contributed	Net OPEB Obligation (Asset)
06/30/15	$ 7,382,177	$ 4,343,166	59%	$ 9,939,541
06/30/16	8,568,525	1,815,523	21%	16,692,543
06/30/17	8,369,974	2,356,085	28%	22,706,432

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

	June 30, 2017
Total OPEB Liability	
Service cost	$ 6,076,552
Interest	3,005,357
Benefit payments	(285,922)
Implicit Rate Subsidies	(1,920,313)
Net change in total OPEB liability	6,875,674
Beginning of year	67,888,829
End of Year	$ 74,764,503
Plan Fiduciary Net Pension (FNP)	
Net investment income	$ 1,272,204
Beginning of year	14,946,492
End of year	$ 16,218,696
Net OPEB Liability	$ 58,545,807
Plan FNP as a percentage of the total OPEB liability	21.69%
Covered-employee payroll	$ 363,751,046
Net OPEB liability as a percentage of covered-employee payroll	16.10%

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

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

	June 30, 2017
Actuarially determined contribution	$ 8,990,196
Contributions in relation to the actuarially determined contribution	2,356,085
Contribution deficiency (excess)	$ 6,634,111
Covered-employee payroll	$ 363,751,046
Contributions as a percentage of covered-employee payroll	0.65%

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

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

	June 30, 2017
Annual money-weighted rate of return, net of investment expense	8.97%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	1.9676%	$ 92,427,990	$ -	$ 92,427,990	$ 103,293,324	89.5%	78.7%
2016	3.5536%	184,165,995	-	184,165,995	110,161,680	167.2%	78.2%
2017	3.3730%	273,870,870	3,577,010	277,447,880	114,079,707	240.1%	78.8%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionated Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	8.0196%	$ 398,742,430	$ 25,768,509	$ 424,510,939	$ 238,717,909	167.0%	81.5%
2016	8.1323%	503,063,183	57,223,106	560,286,289	257,683,734	195.2%	76.8%
2017	8.5993%	2,188,694,939	192,864,529	2,394,574,710	301,171,984	726.7%	44.9%

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

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

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 7,488,766	$ 7,488,766	$ -	$ 103,293,324	7.25%
2015	8,262,126	8,262,126	-	110,161,680	7.50%
2016	8,555,978	8,555,978	-	114,079,707	7.50%
2017	8,816,021	8,816,021	-	117,546,947	7.50%

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

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

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years*

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 25,399,585	$ 25,399,585	$ -	$ 228,003,456	11.14%
2015	28,705,968	28,705,968	-	257,683,734	11.14%
2016	33,550,559	33,550,559	-	301,171,984	11.14%
2017	33,991,909	33,991,909	-	305,133,833	11.14%

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

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

TRA Retirement Funds

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

General Employees Fund

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

General Employees Fund (Continued)

2016 Changes (Continued)

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

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

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SUPPLEMENTARY INFORMATION

Minneapolis Public Schools
Special School District No. 1
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2017

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 581,768,826	$ 581,768,826	$ -
Total expenditures		605,929,828	605,929,827	1
Nonspendable:				
460	Nonspendable fund balance	128,675	128,674	1
Restricted/reserved:				
403	Staff Development	-	-	-
405	Deferred Maintenance	-	-	-
406	Health and Safety	(161,640)	(161,640)	-
407	Capital Projects Levy	-	-	-
408	Cooperative Programs	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
414	Operating Debt	-	-	-
416	Levy Reduction	-	-	-
417	Taconite Building Maintenance	-	-	-
423	Certain Teacher Programs	-	-	-
424	Operating Capital	-	-	-
426	$25 Taconite	-	-	-
427	Disabled Accessibility	-	-	-
428	Learning and Development	-	-	-
434	Area Learning Center	-	-	-
435	Contracted Alternative Programs	19,894	19,894	-
436	State Approved Alternative Program	-	-	-
438	Gifted and Talented	-	-	-
440	Teacher Development and Evaluation	-	-	-
441	Basic Skills Programs	-	-	-
445	Career Technical Programs	-	-	-
448	Achievement and Integration	-	-	-
449	Safe School Crime	-	-	-
450	Transition for Pre-Kindergarten	-	-	-
451	QZAB and QSCB Payments	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
453	Unfunded Severance and Retirement Levy	-	-	-
467	Long-term Facilities Maintenance	(194,164)	(194,164)	
472	Medical Assistance	-	-	
Restricted:				
464	Restricted fund balance	3,300,000	3,300,000	-
Committed:				
418	Committed for separation	-	-	-
461	Committed	-	-	-
Assigned:				
462	Assigned fund balance	21,455,251	21,455,251	-
Unassigned:				
422	Unassigned fund balance (net position)	41,748,347	41,748,349	(2)
02 Food Services Fund				
Total revenue		$ 22,589,754	$ 22,589,753	$ 1
Total expenditures		22,077,485	22,077,484	1
Nonspendable:				
460	Nonspendable fund balance	872,545	872,545	-
Restricted/reserved:				
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	2,000,270	2,000,270	-
Unassigned:				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total revenue		$ 29,825,786	$ 29,825,783	$ 3
Total expenditures		28,554,216	28,554,214	2
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
426	$25 Taconite	-	-	-
431	Community Education	5,549,459	5,549,459	-
432	ECFE	1,051,105	1,051,105	-
440	Teacher Development and Evaluation	-	-	-
444	School Readiness	614,311	614,311	-
447	Adult Basic Education	1,278,467	1,278,467	-
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	211,228	211,227	1
Unassigned:				
463	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ 1,115,839	$ 1,115,839	$ -
Total expenditures		65,875,000	65,875,000	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
407	Capital Projects Levy	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
467	Long-term Facilities Maintenance	83,826,727	83,826,727	-
Restricted:				
464	Restricted fund balance	117,235,951	117,235,951	-
Unassigned:				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 75,265,203	$ 75,265,204	$ (1)
Total expenditures		77,754,089	77,754,090	(1)
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
425	Bond refundings	-	-	-
451	QZAB and QSCB Payments	17,641,582	17,641,582	-
Restricted:				
464	Restricted fund balance	8,305,744	8,305,743	1
Unassigned:				
463	Unassigned fund balance	-	-	-
08 TRUST FUND				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
20 Internal Service Fund				
Total revenue		$ 43,947,036	$ 43,947,037	$ (1)
Total expenditures		32,153,886	32,153,885	1
Unassigned:				
422	Unassigned fund balance (net position)	(296,331)	(296,330)	(1)
25 OPEB Revocable Trust				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
45 OPEB Irrevocable Trust				
Total revenue		$ 1,272,204	$ 1,272,205	$ (1)
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	16,218,696	16,218,696	-
47 OPEB Debt Service				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
460	Nonspendable fund balance			
Restricted:		-	-	-
425	Bond refundings			
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	-	-	-