Minneapolis Public Schools
Special District No. 1
Minneapolis, Minnesota

Financial Statements

June 30, 2016

Minneapolis Public Schools
Special District No. 1
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Minneapolis Public Schools
Special District No. 1
Board of Education and Administration
Year Ended June 30, 2016

Board of Education	Position	Term Expires
Jenny Arneson	Chair	2019
Kim Ellison	Vice Chair	2017
Josh Reimnitz	Clerk	2017
Rebecca Gagnon	Treasurer	2019
Carla Bates	Director	2017
Tracine Asberry	Director	2017
Nelson Inz	Director	2019
Siad Ali	Director	2019
Don Samuels	Director	2019
Shaadia Munye	Student Representative	2017

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

BerganKDV, Ltd.

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Minneapolis Public Schools, Special District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Minneapolis Public Schools, Special District No. 1, Minneapolis, Minnesota, as of June 30, 2016 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.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2016, 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
December 29, 2016

Minneapolis Public Schools
Special 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, 2016. 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 (2015-2016) and the prior year (2014-2015) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- Total combined fund balance of all the District's governmental funds decreased $25.6 million, from the prior year. This net decrease was due primarily to excess capital outlay expenditures for building constructions over proceeds from bond issuances. Total governmental fund revenues were $710 million, up $15.6 million or 2.3% increase over the prior year. While the most significant increase of $11.7 million or 2.8% over last year came from revenue from state sources primarily due to increase in enrollment and increase in the formula allowance for fiscal year 2016. Property taxes also increased by $8.5 million or 5.0% primarily due to increase in levy.

- Total governmental fund expenditures were $878 million, up $78.5 million, or 9.8% from the prior year. Capital outlay increased by 34.7% or $29.2 million. Current expenditures also increased in Instructional Support, ($8.2 million or 18.0%), Pupil Support ($1.6 million or 2.5%), Administration ($1.6 million or 10.1%), Elementary and Secondary Instruction ($20.2 million or 7.7%), Special Education ($5.5 million or 4.8%), Vocational Instruction ($0.1 million or 2.1%), Site, Buildings, and Equipment ($2.2 million or 3.3%), Community Service ($1.7 million or 7.1%) and Food Service ($2.6 million or 14.0%) compared to last year. District Support Services decreased by $9.4 million or 33.3%.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Government-Wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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 $369 million on June 30, 2016. This was a change of 8.24% from the prior year (see Table A-1).

Table A-1

The District's Net Position

	Primary Government Governmental Activities 2016	Primary Government Governmental Activities 2015	Percentage Change
Current and other assets	$ 523,255,668	$ 585,947,936	-10.70%
Capital assets	640,670,286	550,293,885	16.42%
Total assets	1,163,925,954	1,136,241,821	2.44%
Deferred outflows of resources	193,147,077	91,565,093	110.94%
Total assets and deferred outflows of resources	1,357,073,031	1,227,806,914	10.53%
Current liabilities	139,609,856	166,562,632	-16.18%
Long-term liabilities	1,330,276,033	1,075,111,058	23.73%
Total liabilities	1,469,885,889	1,241,673,690	18.38%
Deferred inflows of resources	255,860,018	326,727,242	-21.69%
Net position			
Net investment in capital assets	163,600,431	158,432,953	3.26%
Restricted	20,331,931	27,225,199	-25.32%
Unrestricted	(552,605,238)	(526,252,170)	5.01%
Total net position	$ (368,672,876)	$ (340,594,018)	8.24%

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 $28 million, due to increase in expenditures primarily from increase in Elementary and secondary regular instruction which is a result of class size reduction and Special Education instruction of approximately $43 million. As presented in the table above, net investment in capital assets experienced an increase of $5.2 million over the prior year, while restricted net position decreased by $6.9 million and unrestricted net position decreased by approximately $26.4 million.

The District's decrease in current and other assets is due to decrease in cash and investments as a result of capital outlays for building construction. The District's increase in total liabilities is due to salaries, and compensated absences payable, bonds payable and net pension liability.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's *government-wide* total revenues were approximately $712 million for the year ended June 30, 2016. Property taxes and unrestricted state aid accounted for 72.5% of total revenue for the year. An additional 1.6% came from other general revenues, and the remaining 25.9% from program revenues (Table A-2).

Table A-2

Change in Net Position

	Primary Government		
	Governmental Activities for the Fiscal Year Ended June 30,		Percentage
Revenues	2016	2015	Change
Program revenues			
Charges for services	$ 17,626,598	$ 16,449,975	7.15%
Operating grants and contributions	147,312,781	138,133,051	6.65%
Capital grants and contributions	11,000,000	11,000,000	0.00%
Genral revenues:			
Property taxes	178,793,844	171,817,923	4.06%
State formula aid	336,888,218	337,642,221	-0.22%
Other	19,901,219	13,825,314	43.95%
Total revenues	711,522,660	688,868,484	3.29%
Expenses			
District and school administration	$18,298,352	14,463,532	26.51%
District support services	26,864,475	30,330,583	-11.43%
Regular instruction	304,864,659	278,074,269	9.63%
Vocational instruction	4,191,742	3,989,570	5.07%
Special education instruction	128,294,358	112,253,986	14.29%
Instructional support services	56,903,247	46,257,355	23.01%
Pupil support services	70,333,762	63,653,294	10.50%
Sites, buildings, and equipment	61,837,606	65,034,547	-4.92%
Fiscal and other fixed cost programs	585,971	567,196	3.31%
Food service	22,736,775	19,370,135	17.38%
Community education and services	28,205,073	24,319,959	15.98%
Interest and fiscal charges on long-term debt	16,485,498	15,789,065	4.41%
Total expenses	739,601,518	674,103,491	9.72%
Change in net position	(28,078,858)	14,764,993	-290.17%
Net position - beginning, as previously stated	(340,594,018)	266,658,454	
Change in accounting principle	-	(622,017,465)	
Net position - beginning, as restated	(340,594,018)	(355,359,011)	-4.15%
Net position - ending	$ (368,672,876)	$ (340,594,018)	8.24%

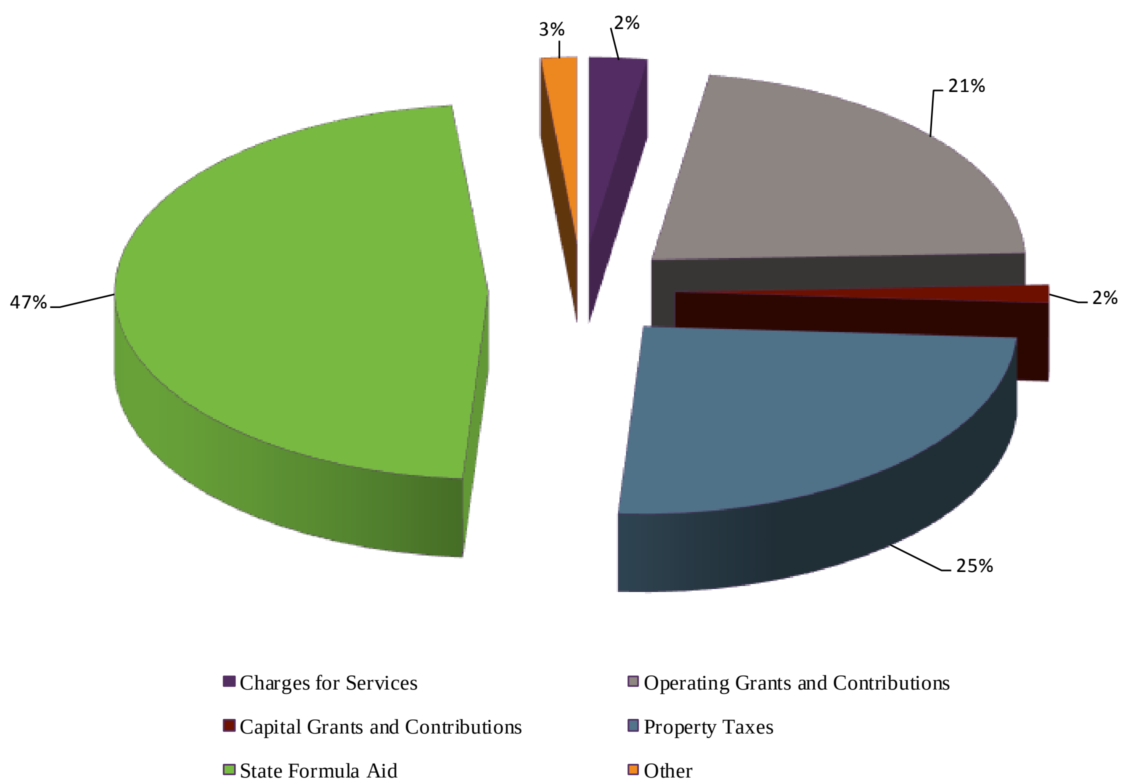
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Total cost of all programs and services was $740 million in fiscal 2016. District expenses were primarily related to educating and caring for students (77%). The District's Community and Nutritional Service programs accounted for 7% 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 6% of total expenses during fiscal 2016. (see Figure A-2 on next page).

The cost of all *governmental* activities this year was $740 million.

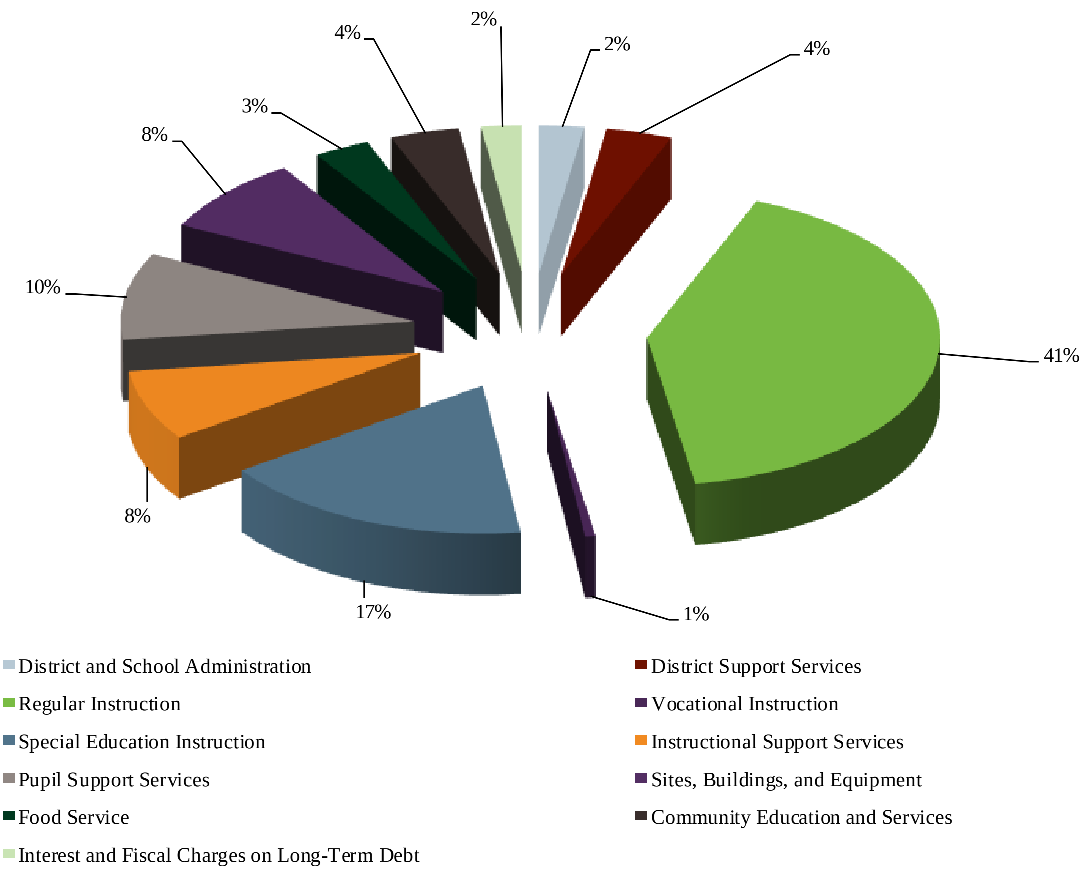
- Some of the cost was paid by the users of the District's programs (Table A-2 previous page, Charges for Services, $17.6 million).
- The federal and state governments subsidized certain programs with grants and contributions (Table A-2, Operating and Capital Grants and Contributions, $158 million).
- Most of the District's costs were paid for with local property taxes of $179 million, unrestricted state aid of $337 million, and other general revenues of $19.9 million.

Figure A-1
Sources of Revenue
Fiscal Year 2016



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-2
Expenses
Fiscal Year 2016



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 2016	Total Cost of Services 2015	Percentage Change	Net Cost of Services 2016	Net Cost of Services 2015	Percentage Change
Administration	$ 18,298,352	$ 14,463,532	26.51%	$16,032,722	$ 13,942,917	14.99%
District support services	26,864,475	30,330,583	-11.43%	26,661,395	28,838,151	-7.55%
Elementary and secondary regular instruction	304,864,659	278,074,269	9.63%	267,266,730	247,990,776	7.77%
Vocational education instruction	4,191,742	3,989,570	5.07%	3,552,958	3,476,909	2.19%
Special education instruction	128,294,358	112,253,986	14.29%	52,111,907	39,639,267	31.47%
Instructional support services	56,903,247	46,257,355	23.01%	53,143,052	44,091,559	20.53%
Pupil support services	70,333,762	63,653,294	10.50%	66,905,930	60,324,496	10.91%
Sites and buildings	61,837,606	65,034,547	-4.92%	59,012,379	62,001,966	-4.82%
Fiscal and other fixed cost programs	585,971	567,196	3.31%	(565,590)	567,196	-199.72%
Food service	22,736,775	19,370,135	17.38%	305,397	(79,259)	-485.32%
Community education and services	28,205,073	24,319,959	15.98%	4,999,882	2,937,422	70.21%
Interest and fiscal charges						
On long-term debt/depreciation	16,485,498	15,789,065	4.41%	5,485,498	4,789,065	14.54%
Total	$ 739,601,518	$ 674,103,491	9.72%	$ 554,912,260	$ 508,520,465	9.12%

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 $259 million, or a $25 million decrease over last year.

The District's governmental funds reported total expenditures of $878 million and total revenues of $710 million. Based on these results, fund balance would have decreased by $168 million. The District also reported an increase in fund balance of $143 million as a result of new bond issues including bond premiums of $7.6 million and real estate sales during the year. These other sources of financing along with the increase in expenditures over revenues resulted in an overall decrease to the *combined* fund balance of $25.5 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 increase in enrollment over the last year of 0.24%.

Table A-4

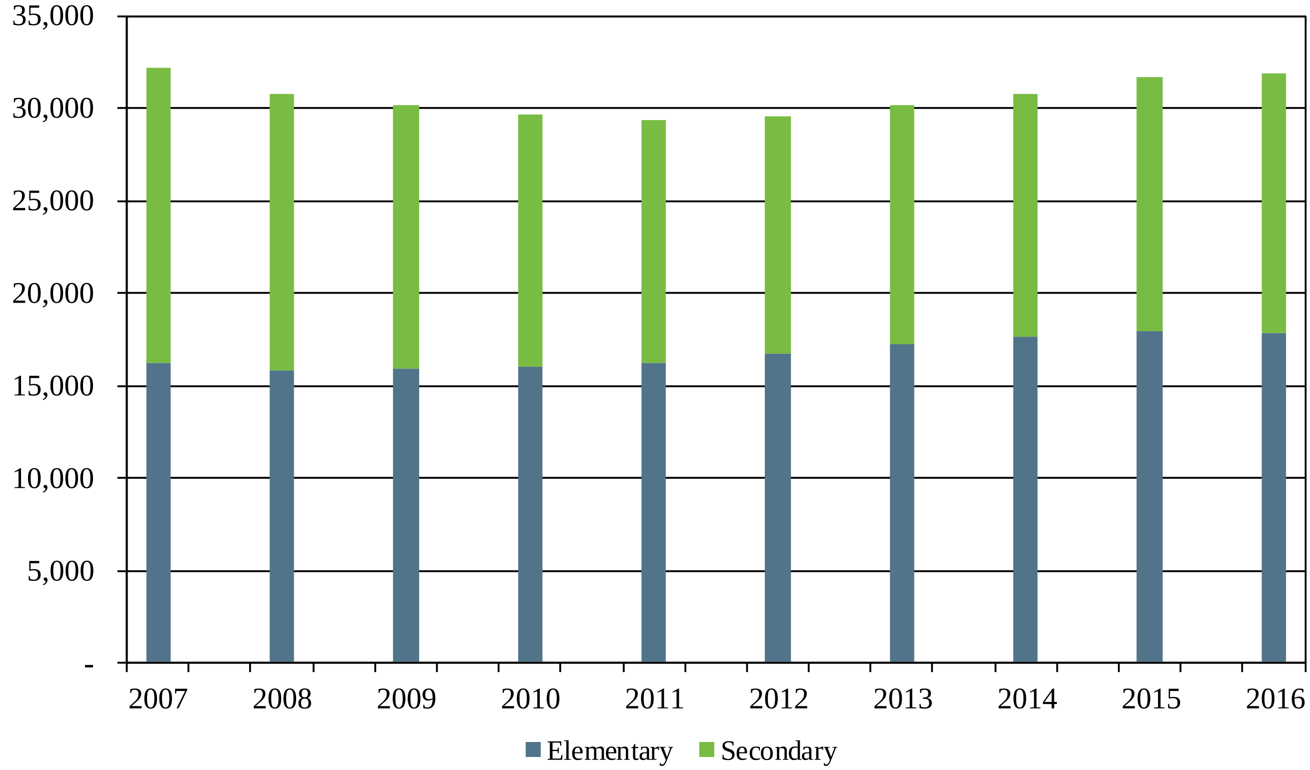
Student Enrollment (Average Daily Membership)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Reg K, Pre-K & KH	3,470	3,409	3,469	3,708	3,656	3,728	3,789	3,582	3,682	3,587
Elementary	16,221	15,832	15,939	15,982	16,236	16,725	17,218	17,643	17,964	17,866
Secondary	16,013	14,896	14,256	13,671	13,087	12,878	12,985	13,086	13,740	14,019
Total Students for Aid	35,704	34,137	33,664	33,361	32,979	33,331	33,992	34,311	35,386	35,472
Percentage Change	-4.18%	-4.39%	-1.39%	-0.90%	-1.15%	1.07%	1.98%	0.94%	3.13%	0.24%

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.

Figure A-3
Student Enrollment
(Average Daily Membership)



GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenue.

Table A-5

General Fund Revenues

	Year Ended June 30, 2016	Year Ended June 30, 2015	Increase (Decrease	Percentage Change
Local Sources:				
Property Taxes	$116,602,944	$ 106,397,151	$ 10,205,793	9.59%
Earnings on Investments	454,430	266,711	187,719	70.38%
Other	17,838,028	19,817,519	(1,979,491)	-9.99%
State Sources	410,256,617	399,944,459	10,312,158	2.58%
Federal Sources	40,075,526	38,310,414	1,765,112	4.61%
Total	$ 585,227,545	$ 564,736,254	$ 20,491,291	3.63%

General Fund revenue increased by $20.5 million or 3.63%, from the previous year.

Revenue increased slightly in fiscal year 2016 due to a slight increase in student enrollment, which increased the District's general education aid. Property taxes also increased due to increase in 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.

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.

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Expenditures.

Table A-6

General Fund Expenditures

	Year Ended June 30, 2016	Year Ended June 30, 2015	Increase (Decrease)	Percentage Change
Salaries	$ 372,393,141	$356,552,067	$ 15,841,074	4.44%
Employee Benefits	135,232,007	117,645,434	17,586,573	14.95%
Purchased Services	70,430,404	74,019,688	(3,589,284)	-4.85%
Supplies and Materials	15,563,198	12,435,934	3,127,264	25.15%
Capital Expenditures	10,348,822	7,613,457	2,735,365	35.93%
Other Expenditures	2,417,144	7,626,570	(5,209,426)	-68.31%
Total	$ 606,384,716	$ 575,893,150	$ 30,491,566	5.29%

Total General Fund expenditures increased by $30.5 million or 5.3% from the previous year.

General Fund salaries and benefits increased $33.4 million combined for the year.

DEBT SERVICE FUND

The Debt Service Fund had excess expenditures over revenues of $16 million. The District issued $10.8 million in general obligation refunding bonds in December 2015 at a premium of $1.7 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 $2.1 million. In the Community Service Fund, revenues exceeded expenditures by about $2 million, resulting in an ending fund balance of about $7.4 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the District had invested approximately $640 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 million.

Table A-7

Capital Assets (Net of Depreciation)

	2016	2015	Percentage Change
Land and Construction in Progress	$ 181,156,351	$ 116,208,258	55.89%
Other Capital Assets	459,513,935	434,085,627	5.86%
Total	$ 640,670,286	$ 550,293,885	16.42%

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 2016 to $5,948 per pupil. A weakened economy, 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)

In 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 District No. 1
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash and investments	$ 338,437,718
Cash and investments held by trustee	16,634,559
Receivables	
Property taxes	96,626,309
Other governments	65,988,717
Other	4,163,826
Prepaid items	118,571
Inventories	1,285,968
Capital assets	
Land and construction in progress	181,156,351
Other capital asset, net of depreiation	459,513,935
Total assets	1,163,925,954
Deferred Outflows of Resources	
Deferred charge on refunding	95,247
Deferred outflows related to pensions	193,051,830
Total deferred outflows of resources	193,147,077
Total assets and deferred outflows of resources	$ 1,357,073,031
Liabilities	
Salaries and compensated absences payable	$ 37,255,026
Accounts and contracts payable	31,037,084
Accrued interest	9,012,803
Due to other governmental units	1,245,389
Unearned revenue	446,908
Long-term liabilities	
Portion due within one year	60,612,646
Portion due in more than one year	1,330,276,033
Total liabilities	1,469,885,889
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	160,855,227
Deferred inflows related to pensions	95,004,791
Total deferred inflows of resources	255,860,018
Net Position	
Net investment in capital assets	163,600,431
Restricted for	
General fund state-mandated reserves	293,573
Debt service	20,441,697
Capital projects - building construction	13,600,336
Unrestricted	(566,608,913)
Total net position	(368,672,876)
Total liabilities, deferred inflows of resources, and net position	$ 1,357,073,031

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Activities
Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities					
Administration	$ 18,298,352	$ -	$ 2,265,630	$ -	$ (16,032,722)
District support services	26,864,475	-	203,080	-	(26,661,395)
Elementary and secondary regular instruction	304,864,660	762,353	36,835,577	-	(267,266,730)
Vocational education instruction	4,191,742	-	638,784	-	(3,552,958)
Special education instruction	128,294,358	3,883,481	72,298,970	-	(52,111,907)
Instructional support services	56,903,247	172,726	3,587,469	-	(53,143,052)
Pupil support services	70,333,762	84,230	3,343,602	-	(66,905,930)
Sites and buildings	61,837,606	2,509,227	316,000	-	(59,012,379)
Fiscal and other fixed cost programs	585,971	-	1,151,561	-	565,590
Food service	22,736,775	2,348,480	20,082,898	-	(305,397)
Community education and services	28,205,073	7,931,383	15,273,808	-	(4,999,882)
Interest and fiscal charges on long-term debt	16,485,498	-	-	11,000,000	(5,485,498)
Total governmental activities	$ 739,601,519	$ 17,691,880	$ 155,997,379	$ 11,000,000	(554,912,260)

General revenues	
Taxes	
Property taxes, levied for general purposes	116,393,510
Property taxes, levied for community service	5,142,659
Property taxes, levied for debt service	57,175,506
Property taxes, levied for capital projects	82,169
State aid not restricted to specific purposes	336,893,500
Earnings on investments	2,843,804
Gain on sale of capital assets	1,678,723
Miscellaneous	6,623,531
Total general revenues	526,833,402
Change in net position	(28,078,858)
Net position - beginning	(340,594,018)
Net position - ending	$ (368,672,876)

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Balance Sheet - Governmental Funds
June 30, 2016

	Major Funds					
	General	Food Service	Community Service	Capital Project-Building Construction	Debt Service	Total Governmental Funds
Assets						
Cash and investments	$ 95,179,498	$ 933,829	$ 8,976,796	$ 161,046,863	$ 42,595,249	$308,732,235
Cash and investments held by trustee	-	-	-	629,029	16,005,530	16,634,559
Receivables						
Current property taxes receivable	58,901,594	-	2,779,590	-	31,933,125	93,614,309
Delinquent property taxes receivable	1,944,962	-	85,325	-	981,713	3,012,000
Due from other Minnesota school districts	555,833	-	113	-	-	555,946
Due from Minnesota Department of Education	45,498,328	-	1,284,872	-	1,130,239	47,913,439
Due from Federal Government through Minnesota Department of Education	12,876,092	850,975	551,010	-	-	14,278,077
Due from Federal Government received directly	1,195,457	-	-	-	-	1,195,457
Due from other governmental units	2,045,658	-	140	-	-	2,045,798
Other receivables	2,816,237	43,988	170,290	243,426	-	3,273,941
Prepaid items	51,936	-	-	-	-	51,936
Inventory	801,596	484,372	-	-	-	1,285,968
Total assets	$221,867,191	$ 2,313,164	$ 13,848,136	$ 161,919,318	$ 92,645,856	$492,593,665
Liabilities						
Salaries and compensated absences payable	$ 25,879,719	$ 69,972	$ 347,551	$ 198,793	$ -	$ 26,496,035
Payroll deductions and employer contributions payable	10,758,991	-	-	-	-	10,758,991
Accounts and contracts payable	8,852,213	101,589	403,144	20,391,599	4,650	29,753,195
Due to other governmental units	1,244,388	1,001	-	-	-	1,245,389
Interest payable	-	-	-	41,704	-	41,704
Unearned revenue	346,381	25,056	75,471	-	-	446,908
Total liabilities	47,081,692	197,618	826,166	20,632,096	4,650	68,742,222
Deferred Inflows of Resources						
Property taxes levied for subsequent Year's expenditures	92,123,172	-	5,503,645	-	63,228,410	160,855,227
Unavailable revenue - delinquent property taxes	1,944,962	-	85,325	-	981,713	3,012,000
Total deferred inflows of resources	94,068,134	-	5,588,970	-	64,210,123	163,867,227
Fund Balances						
Nonspendable						
Prepaid items	51,936	-	-	-	-	51,936
Inventory	801,596	484,372	-	-	-	1,285,968
Restricted for						
Alternative facility program	-	-	-	46,792,178	-	46,792,178
Graduation standards - gifted and talented	293,573	-	-	-	-	293,573
Community education programs	-	-	4,391,533	-	-	4,391,533
Early childhood and family educations programs	-	-	1,202,910	-	-	1,202,910
School readiness	-	-	269,807	-	-	269,807
Adult basic education	-	-	1,297,774	-	-	1,297,774
QSCB/QZAB	-	-	-	-	16,005,523	16,005,523
Building construction	-	-	-	94,495,044	-	94,495,044
Other purposes	-	1,631,174	270,976	-	12,425,560	14,327,710
Assigned	25,350,565	-	-	-	-	25,350,565
Unassigned	54,219,695	-	-	-	-	54,219,695
Total fund balances	80,717,365	2,115,546	7,433,000	141,287,222	28,431,083	259,984,216
Total liabilities, deferred inflows of resources, and fund balances	$221,867,191	$ 2,313,164	$ 13,848,136	$ 161,919,318	$ 92,645,856	$492,593,665

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2016

Total fund balances - governmental funds	$ 259,984,216
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	145,710,050
Buildings and improvements, net of accumulated depreciation	448,596,261
Equipment, net of accumulated depreciation	10,917,674
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	(317,010,000)
Unamortized bond premiums and discounts	(41,126,988)
Certificate of participation payable	(259,370,000)
Net other post employee benefit obligation	(16,692,543)
Net pension liability	(715,221,553)
Deferred charge on refunding	95,247
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	193,051,830
Deferred inflows related to pensions	(95,004,791)
Governmental funds do not report a liability for accrued interest on bonds and certificates of participation until due and payable.	(8,971,099)
Delinquent property taxes receivables 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.	3,012,000
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:	(12,089,481)
Total net position - governmental activities	$ (368,672,876)

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2016

	Major Funds					
	General	Food Service	Community Service	Capital Project-Building Construction	Debt Service	Total Governmental Funds
Revenues						
Local sources						
Property taxes	$ 116,602,944	$ -	$ 5,150,988	$ 82,169	$ 57,266,885	$ 179,102,986
Earnings on investments	454,430	3	-	406,247	1,679,643	2,540,323
Other	17,838,028	2,874,591	9,285,115	1,314,155	-	31,311,889
Revenue from state sources	410,256,617	778,305	12,125,120	-	11,267,351	434,427,393
Revenue from federal sources	40,075,526	18,833,351	2,009,358	-	1,548,773	62,467,008
Total revenues	585,227,545	22,486,250	28,570,581	1,802,571	71,762,652	709,849,599
Expenditures						
Current						
Administration	17,687,848	-	-	-	-	17,687,848
District support services	18,772,996	-	-	-	-	18,772,996
Elementary and secondary regular instruction	281,183,312	-	-	-	-	281,183,312
Vocational education instruction	3,824,712	-	-	-	-	3,824,712
Special education instruction	120,631,699	-	-	-	-	120,631,699
Instructional support services	53,888,807	-	-	-	-	53,888,807
Pupil support services	65,090,663	-	-	-	-	65,090,663
Sites and buildings	34,369,886	-	-	33,167,295	-	67,537,181
Fiscal and other fixed cost programs	585,971	-	-	-	-	585,971
Food service	-	21,379,447	-	-	-	21,379,447
Community education and services	-	-	26,096,351	-	-	26,096,351
Capital outlay						
Administration	37,580	-	-	-	-	37,580
District support services	4,145,742	-	-	-	-	4,145,742
Elementary and secondary regular instruction	1,359,413	-	-	-	-	1,359,413
Vocational education instruction	263,166	-	-	-	-	263,166
Special education instruction	368,050	-	-	-	-	368,050
Instructional support services	203,591	-	-	-	-	203,591
Pupil support services	2,993,458		-	-	-	2,993,458
Sites and buildings	977,822	-	-	102,094,178	-	103,072,000
Food service	-	648,373	-	-	-	648,373
Community education and services	-	-	467,269	-	-	467,269
Debt service						
Principal	-	-	-	-	65,651,000	65,651,000
Interest and fiscal charges	-	-	-	-	22,474,693	22,474,693
Total expenditures	606,384,716	22,027,820	26,563,620	135,261,473	88,125,693	878,363,322
Excess of revenues over (under) expenditures	(21,157,171)	458,430	2,006,961	(133,458,902)	(16,363,041)	(168,513,723)
Other Financing Sources (Uses)						
Proceeds from sale of capital assets	8,310	24,636	-	8,009,968	-	8,042,914
Bond issuance	5,920,000	-	-	94,585,000	10,830,000	111,335,000
Bond premium	-	-	-	5,827,492	1,735,499	7,562,991
Transfers in	16,000,000	-	-	-	-	16,000,000
Total other financing sources (uses)	21,928,310	24,636	-	108,422,460	12,565,499	142,940,905
Net change in fund balances	771,139	483,066	2,006,961	(25,036,442)	(3,797,542)	(25,572,818)
Fund Balances						
Beginning of year	79,946,226	1,632,480	5,426,039	166,323,664	32,228,625	285,557,034
End of year	$ 80,717,365	$ 2,115,546	$ 7,433,000	$ 141,287,222	$ 28,431,083	$ 259,984,216

See notes to financial statements.

Minneapolis Public Schools
Special 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, 2016

Net change in fund balances - total governmental funds	$ (25,572,818)
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	128,832,297
Net book value of disposed assets	(6,364,191)
Depreciation exepense	(32,091,705)
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, issueing 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	14,235,000
Certificates of participation proceeds	(125,570,000)
Bond premium	(7,562,991)
Repayment of certificates of participation payable	21,370,000
Repayment of bond principal	44,281,000
Change in accrued interest expense	1,166,579
Amortization of bond premiums and discounts	4,727,369
Deferred charge on refunding	107,153
Amortization of deferred charge on refunding	(11,906)
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	(23,052,353)
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.	(6,753,002)
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	(15,510,148)
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.	(309,142)
Change in net position - governmental activities	$ (28,078,858)

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local sources				
Local property taxes	$ 108,606,856	$ 108,606,856	$ 116,602,944	$ 7,996,088
Earnings on investments	-	-	454,430	454,430
Other local and county revenues	20,369,707	15,642,586	17,831,504	2,188,918
Revenue from state sources	401,474,784	401,775,905	410,256,617	8,480,712
Revenue from federal sources	40,360,839	40,360,839	40,075,526	(285,313)
Sales and other conversion of assets	-	6,000	6,524	524
Total revenues	570,812,186	566,392,186	585,227,545	18,835,359
Expenditures				
Current				
Administration	13,227,433	16,318,186	17,687,848	1,369,662
District support services	21,990,924	17,929,305	18,772,996	843,691
Elementary and secondary regular instruction	258,474,667	271,043,342	281,183,312	10,139,970
Vocational education instruction	3,948,044	3,207,264	3,824,712	617,448
Special education instruction	110,873,821	108,727,516	120,631,699	11,904,183
Instructional support services	48,243,178	51,304,518	53,888,807	2,584,289
Pupil support services	61,376,861	62,158,445	65,090,663	2,932,218
Sites and buildings	32,256,810	30,496,778	34,369,886	3,873,108
Fiscal and other fixed cost programs	552,000	536,633	585,971	49,338
Capital outlay				
Administration	20,000	48,078	37,580	(10,498)
District support services	3,888,500	8,079,135	4,145,742	(3,933,393)
Elementary and secondary regular instruction	908,625	1,516,180	1,359,413	(156,767)
Vocational education instruction	185,000	267,183	263,166	(4,017)
Special education instruction	100,000	305,230	368,050	62,820
Instructional support services	70,498	177,210	203,591	26,381
Pupil support services	583,001	1,843,665	2,993,458	1,149,793
Sites and buildings	641,476	766,412	977,822	211,410
Total expenditures	557,340,838	574,725,080	606,384,716	31,659,636
Excess of revenues over (under) expenditures	13,471,348	(8,332,894)	(21,157,171)	(12,824,277)
Other Financing Sources				
Proceeds from sale of capital assets	-	-	8,310	8,310
Bond issuance	-	4,420,000	5,920,000	1,500,000
Transfers in	-	-	16,000,000	16,000,000
Total other financing sources	-	4,420,000	21,928,310	17,508,310
Net change in fund balance	$ 13,471,348	$ (3,912,894)	771,139	$ 4,684,033
Fund Balance				
Beginning of year			79,946,226	
End of year			$ 80,717,365	

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local sources				
Earnings on investments	$ -	$ -	$ 3	$ 3
Other	-	500,000	526,163	26,163
Revenue from state sources	673,813	673,813	778,305	104,492
Revenue from federal sources	16,671,170	18,428,544	18,833,351	404,807
Sales and other conversion of assets	1,408,970	1,408,970	2,348,428	939,458
Total revenues	18,753,953	21,011,327	22,486,250	1,474,923
Expenditures				
Current				
Food service	18,564,891	19,818,866	21,379,447	1,560,581
Capital outlay				
Food service	189,062	670,933	648,373	(22,560)
Total expenditures	18,753,953	20,489,799	22,027,820	1,538,021
Excess of revenues over (under) expenditures	-	521,528	458,430	(63,098)
Other Financing Sources				
Sale of capital assets	-	-	24,636	24,636
Net change in fund balance	$ -	$ 521,528	483,066	$ (38,462)
Fund Balance				
Beginning of year			1,632,480	
End of year			$ 2,115,546	

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local sources				
Local property taxes	$ 4,931,185	$ 4,931,185	$ 5,150,988	$ 219,803
Other local and county revenues	9,228,710	8,998,639	9,285,115	286,476
Revenue from state sources	9,514,448	11,194,033	12,125,120	931,087
Revenue from federal sources	1,604,059	1,604,059	2,009,358	405,299
Total revenues	25,278,402	26,727,916	28,570,581	1,842,665
Expenditures				
Current				
Community education and services	25,116,102	26,350,706	26,096,351	(254,355)
Capital outlay				
Community education and services	162,300	377,210	467,269	90,059
Total expenditures	25,278,402	26,727,916	26,563,620	(164,296)
Excess of revenues over expenditures	$ -	$ -	2,006,961	$ 2,006,961
Fund balance				
Beginning of year			5,426,039	
End of year			$ 7,433,000	

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Statement of Net Position - Proprietary Fund
Internal Service Fund
June 30, 2016

Assets	
Current assets	
Cash and cash equivalents	$ 29,705,483
Accounts receivable	889,885
Prepaids	66,635
Total assets	$ 30,662,003
Liabilities	
Current liabilities	
Accounts payable	$ 1,283,889
Accrued severance	3,072,551
Loss and loss adjustment reserves	
Workers' compensation	3,130,095
Total current liabilities	7,486,535
Noncurrent liabilities	
Loss and loss adjustment reserves	
Workers' compensation	3,164,399
Incurred but not reported reserves	
Workers' compensation	3,164,399
Property/casualty	1,118,398
Accrued severance	27,817,753
Total liabilities	$ 42,751,484
Net Position	
Unrestricted	$ (12,089,481)

See notes to financial statements.

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, 2016

Operating Revenue	
Local sources - charges for services	$ 8,286,611
Operating Expenses	
Loss and loss adjustments	762,124
Claims administration	582,113
Workers compensation and other benefits	9,591,757
Severance	5,492,732
Total operating expenses	16,428,726
Operating loss	(8,142,115)
Nonoperating Revenue	
Insurance recoveries	786,281
Earnings on investments	303,481
Total nonoperating revenue	1,089,762
Income before transfers	(7,052,353)
Transfers out	(16,000,000)
Change in net position	(23,052,353)
Net Position	
Beginning of year	10,962,872
End of year	$ (12,089,481)

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Statement of Cash Flows - Proprietary Fund
Internal Service Fund
June 30, 2016

Cash Flows - Operating Activities	
Receipts from premiums	$ 7,396,726
Claims administration	(174,039)
Claims paid	(8,619,496)
Benefits paid	(1,521,762)
Net cash flows - operating activities	(2,918,571)
Cash flows - noncapital financing activities:	
Transfers to other funds	(16,000,000)
Insurance proceeds	786,281
Net cash flows - noncapital financing activities	(15,213,719)
Cash Flows - Investing Activities	
Interest received	303,481
Net change in cash and cash equivalents	(17,828,809)
Cash and Cash Equivalents	
Beginning of year	47,534,292
End of year	$ 29,705,483
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating loss	$ (8,142,115)
Adjustments to reconcile operating income To net cash flows - operating activities:	
Accounts payable	408,074
Accounts receivable	(889,885)
Loss and loss adjustment reserves	1,734,385
Accrued compensated absences	3,970,970
Net adjustments	5,223,544
Net cash flows - operating activities	$ (2,918,571)

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Statement of Fiduciary Net Position
June 30, 2016

	Other Post-Employment Benefit Trust
Assets	
Current	
Mutual funds	$ 14,946,492
Total assets	$ 14,946,492
Net Position	
Held in trust for OPEB	$ 14,946,492

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2016

	Post Employment Benefits Irrevocable Trust Fund
Additions	
Investment income	$ 309,105
Change in net position	309,105
Net Position	
Beginning of year	14,637,387
End of year	$ 14,946,492

See notes to financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

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

B. Financial Reporting Entity

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

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

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

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

Separate fund financial statements are provided for the governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: other postemployment benefit trust. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide statements.

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

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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

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

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

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

Major Governmental Funds

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

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues recorded in this fund 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 Funds

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

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, and workers' compensation risks.

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

Fiduciary Fund – The District has established an Other Postemployment Benefit Trust fund for other postemployment benefit payments.

E. Budgeting

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

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 revenue and expenditure budgets as follows:

Revenues (including other financing sources)	Original Budget	Amendments	Amended Budget
Food Service Fund	$ 18,753,953	$ 2,257,374	$ 21,011,327
Community Service Fund	25,278,402	1,449,514	26,727,916
Capital Projects Fund	161,187,499	(60,000,000)	101,187,499
Expenditures (including other financing uses)			
General Fund	$ 557,340,838	$ 17,384,242	$ 574,725,080
Food Service Fund	18,753,953	1,735,846	20,489,799
Community Service Fund	25,278,402	1,449,514	26,727,916

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 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. Investment held by a 2.a.7 and/or a 2.a.7 like investment pool are measured at amortized cost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments (Continued)

OPEB Trust Fund

These funds represent investments administered by the District's OPEB fund investment managers. As of June 30, 2016, they were comprised of mutual funds. The District's investment policy extends to the OPEB Trust Fund investments.

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

G. Accounts Receivable

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

H. Inventories

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

I. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes (Continued)

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 2015, 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 2016. The remaining portion of the levy will be recognized when measurable and available.

J. 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 two items that qualify for reporting in this category. A deferred charge on refunding and a deferred outflow relating to pension activity, are 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. A deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

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 three 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. A deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

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

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

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

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

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

L. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. 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.

N. 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 Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

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 merger 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. Additional information can be found in TRA Note 7.G.

O. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance and is self-insured for some risks as indicated in Note 10. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2016.

P. 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".

Q. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balance

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

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

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

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

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

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

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

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

S. 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.

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 School District's Board.

Custodial Credit Risk **–** Custodial credit risk for deposits is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The 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, 2016, the District's deposits with a bank balance of $9,380,424 were not exposed to custodial credit risk because the balance was fully insured by FDIC or secured by pledged collateral.

As of June 30, 2016, the book value of the District's deposits is $6,346,921.

B. Investments

Investment Policy

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

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

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

Concentration of Credit Risk
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
GASB 40 requires disclosure of all uninsured investment securities purchased by the District or held as collateral on deposits or investments that are not registered in the name of the Minneapolis Public Schools, and held by the counterparty to the investment transactions. The District's investments held by one broker-dealer were insured by SIPC or other supplemental insurance as of June 30, 2016. 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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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, 2016, the market values, duration, and percent allocation of the District's investments were as listed below.

Investment	Fair Value	Weighted Average Maturities (In Years)	Percent Allocation	Credit Rating
MSDLAF+	$ 255,212,870	N/A	76.85%	AA+
Federal Home Loan Bank (FHLB)	17,708,485	1.41	5.33%	AA+
U.S. Treasury Securities	29,518,293	2.23	8.89%	AA+
Fannie Mae	14,451,477	2.40	4.35%	AA+
Freddie Mac	3,599,546	2.99	1.08%	AA+
G.O. Bonds	1,264,527	1.41	0.38%	Aa1-Aa2
Brokered Certificates of Deposit	3,893,271	2.35	1.17%	N/A
Agency	989,260	1.38	0.30%	N/A
Medium Term Note	541,275	1.5	0.16%	N/A
Commercial Paper	4,494,923	0.2	1.35%	A1
Cash/Money Market Funds	416,870	N/A	0.13%	N/A
Total	$ 332,090,797		100.00%	

The District has the following recurring fair value measurements as of June 30, 2016:

- $332,090,797 of $332,090,797 are valued using a quoted market prices (Level 1 inputs)

As of June 30, 2016, the market values, duration, and percent allocation of the District's OPEB Trust investments was as follows:

Investment	Fair Value	Weighted Average Maturities (In Years)	Percent Allocation
OPEB investments			
Mutual funds	$ 14,914,670	N/A	99.79%
Cash/money market funds	31,822	N/A	0.21%
Total OPEB investments	$ 14,946,492		100.00%

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Cash and Investments Held by Trustee
Cash and investments of $16,634,559 are held by an escrow agent in accordance with escrow agreements established with the sale of certain bonds. As of June 30, 2016, the market values, duration, and percent allocation of the District's cash with fiscal agents is:

Investment	Fair Value	Weighted Average Maturities (In Years)	Percentage Allocation
Cash and investments held by trustee			
Cash and investments held by trustee	$ 629,029	N/A	3.78%
U.S. Treasury Securities	16,005,530	9.39	96.22%
Total	$ 16,634,559		100.00%

C. Deposits and Investments
The following is a summary of total deposits and investments:

District governmental funds	
Deposits (Note 3. A.)	$ 6,346,921
Investments (Note 3. B.)	332,090,797
Cash and investments with trustee (Note 3. B.)	16,634,559
OPEB trust fund	
Investments (Note 3. B.)	14,946,492
Total deposits and investments	$ 370,018,769

Deposits and investments are presented in the June 30, 2016, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 338,437,718
Cash with fiscal agent	16,634,559
Statement of Fiduciary Net Position	
OPEB trust fund	14,946,492
Total deposits and investments	$ 370,018,769

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 36,926,301	$ -	$ 1,480,000	$ 35,446,301
Construction in progress	79,281,957	113,021,099	46,593,006	145,710,050
Total capital assets not being depreciated	116,208,258	113,021,099	48,073,006	181,156,351
Capital assets being Depreciated				
Buildings	949,194,540	58,616,893	5,864,852	1,001,946,581
Machinery and equipment	68,385,157	3,787,311	726,031	71,446,437
Total capital assets being depreciated	1,017,579,697	62,404,204	6,590,883	1,073,393,018
Less accumulated Depreciation for				
Buildings	524,904,459	29,440,705	994,844	553,350,320
Machinery and equipment	58,589,611	2,651,000	711,848	60,528,763
Total accumulated depreciation	583,494,070	32,091,705	1,706,692	613,879,083
Total capital assets being depreciated, net	434,085,627	30,312,499	4,884,191	459,513,935
Governmental activities, Capital assets net	$ 550,293,885	$ 143,333,598	$ 52,957,197	$ 640,670,286

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $32,091,705 for the year ended June 30, 2016 was charged to the following governmental functions:

Administration	$ 156,755
District support services	310,229
Regular instruction	20,876,825
Vocational education instruction	27,021
Special education instruction	293,836
Community education	71,014
Instructional support services	83,433
Pupil support services	1,346,359
Food service	300,932
Sites and buildings	8,625,301
Total depreciation expense, governmental activities	$ 32,091,705

NOTE 4 – LEASES

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

NOTE 5 – LONG-TERM LIABILITIES

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

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

A. Components of Long-Term Debt

	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	6,270,000	3,095,000
	12/28/10	2.00-4.00%	7,750,000	2/1/2021	2,000,000	380,000
	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	6,265,000	1,500,000
	12/01/11	3.00-4.00%	16,770,000	2/1/2027	10,885,000	1,610,000
	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	17,485,000	1,315,000
	12/18/12	2.00-3.00%	18,550,000	2/1/2033	16,145,000	855,000
	12/18/12	3.00-4.00%	9,285,000	2/1/2022	6,885,000	1,270,000
	12/18/12	2.00%	16,530,000	2/1/2022	12,655,000	2,000,000
	12/04/13	3.00-4.00%	20,525,000	2/1/2029	17,640,000	1,560,000
	12/04/13	4.00-5.00%	38,090,000	2/1/2034	35,805,000	1,345,000
	12/04/13	5.00%	13,245,000	2/1/2017	3,430,000	3,430,000
	12/23/14	2.00-3.00%	21,840,000	2/1/2030	20,170,000	1,785,000
	12/23/14	3.00-4.00%	45,270,000	2/1/2030	43,125,000	2,400,000
	12/23/14	2.00-5.00%	11,300,000	2/1/2023	10,145,000	1,260,000
	12/29/15	2.34%	21,275,000	2/1/2031	21,275,000	1,695,000
	12/29/15	2.51%	34,755,000	2/1/2031	34,755,000	1,655,000
	12/29/15	1.69%	10,830,000	2/1/2024	10,830,000	1,085,000
Certificates of participation			376,945,000		317,010,000	28,240,000
	11/04/09	3.00-4.0%	22,850,000	2/1/2017	3,610,000	3,610,000
	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	22,310,000	1,295,000
	07/26/11	2.00-5.00%	31,255,000	2/1/2020	13,445,000	3,800,000
	12/01/11	2.00-3.20%	19,705,000	2/1/2023	13,265,000	1,760,000
	12/04/13	5.00%	41,125,000	2/1/2021	28,015,000	7,230,000
	12/23/14	4.00-5.00%	125,570,000	2/1/2030	121,260,000	6,195,000
	12/29/15	2.67%	44,475,000	2/1/2031	44,475,000	2,280,000
Total certificates of participation			326,205,000		259,370,000	26,170,000
Bond premium					41,126,988	-
Self insurance liability and compensated absences					41,467,595	6,202,646
Total long-term liabilities					$ 658,974,583	$ 60,612,646

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
2017	$ 26,170,000	$ 11,948,593	$ 28,240,000	$ 11,330,451
2018	23,580,000	10,700,468	25,015,000	10,045,342
2019	23,315,000	9,656,948	22,195,000	9,116,644
2020	18,530,000	8,577,353	22,655,000	8,324,942
2021	16,285,000	7,736,205	21,345,000	7,468,843
2022-2026	70,480,000	28,714,360	123,930,000	26,202,331
2027-2031	69,995,000	11,790,475	61,480,000	7,798,463
2032-2036	11,015,000	2,199,275	12,150,000	844,062
Total	$ 259,370,000	$ 91,323,677	$ 317,010,000	$ 81,131,078

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 29, 2015, the District issued $21,275,000 of General Obligation School Building Bonds, Series 2015A. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

On December 29, 2015, the District issued $34,755,000 of General Obligation Alternative Facility Bonds, Series 2015B. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

On December 29, 2015, the District issued $10,830,000 of General Obligation Refunding Bonds, Series 2015C. The proceeds of this issue were used on December 29, 2015 to refund, in advance of their stated maturities, the remaining fiscal 2017 through 2024 maturities of the District's General Obligation Bond, 2008 Series, totaling $12,485,000. After the current refunding, the District assumes full debt service of the principal and interest payments on the 2015C issue. The refunding reduced the District's total future debt service payments for this series of bonds by $1,390,948 and resulted in a present value savings of approximately $1,295,836.

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Certificates of Participation

On December 29, 2015, the District issued $44,475,000 Certificates of Participation, Series 2015D. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

Self Insurance Liability and Compensated Absences

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

D. Changes in Long-Term Debt

	June 30, 2015	Additions	Retirements	June 30, 2016
Governmental activities				
Bonds payable				
General obligation bonds	$ 294,431,000	$ 66,860,000	$ (44,281,000)	$ 317,010,000
Bond premium	38,292,127	7,209,819	(4,374,958)	41,126,988
Bond discount	(761)	-	761	-
Certificates of participation payable	236,265,000	44,475,000	(21,370,000)	259,370,000
Self insurance reserves and post Employee benefits	35,762,240	5,705,355	-	41,467,595
Total governmental activity Long-term liabilities	$ 604,749,606	$ 124,250,174	$ (70,025,197)	$ 658,974,583

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 non-spendable 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, 2016 are as follows:

	Restricted	Nonspendable/ Assigned
General Fund		
Restricted for gifted and talented	$ 293,573	$ -
Nonspendable for prepaid items	-	51,936
Nonspendable for inventory	-	801,596
Assigned for referendum - class size	-	4,000,000
Assigned for alternative compensation	-	1,446,988
Assigned for reemployment insurance	-	623,482
Assigned for site carryover	-	18,280,095
Assigned for contingency	-	1,000,000
Total general fund	293,573	26,204,097
Special revenue fund		
Food service fund		
Restricted for other purposes	1,631,174	-
Nonspendable for inventory	-	484,372
Community Service Fund		
Restricted for school readiness	269,807	-
Restricted for adult basic education	1,297,774	-
Restricted for community education programs	4,391,533	-
Restricted for early childhood and family	1,202,910	
Restricted for other purposes	270,976	-
Total special revenue funds	9,064,174	484,372
Capital projects - building construction fund		
Restricted for alternative facility program	46,792,178	-
Restricted for building construction	94,495,044	-
Total building construction fund	141,287,222	-
Debt service		
Restricted for QSCB/QZAB	16,005,523	-
Restricted for other purposes	12,425,560	-
Total debt service fund	28,431,083	-
Total all funds	$ 179,076,052	$ 26,688,469

Restricted for Gifted and Talented – The fund balance restriction represents gifted and talented resources to be used to identify gifted and talented students, to provide programs for those students, and to train teachers for working with gifted and talented students.

Restricted for School Readiness Programs – The fund balance restriction represents accumulated resources available to provide school readiness programming.

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.

NOTE 6 – FUND BALANCES (CONTINUED)

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 Alternative Facility Program – Represents available resources to be used for alternative facilities projects.

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.

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

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.

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are up to July 1, 2006	1.2% per year
	First 10 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

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.

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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.

C. Contribution Rate

Per *Minnesota Statutes,* Chapter 354 sets the contribution rates for employees and employers. Rates for years ended June 30, 2015 and June 30, 2016, 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	$ 340,207,590
Deduct Employer contributions not related to future contribution efforts	(704,635)
Deduct TRA's contributions not included in allocation	(435,999)
Total employer contributions	339,066,956
Total non-employer contributions	41,587,410
Total contributions reported in schedule of employer and non-employer pension allocations	$ 380,654,366

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. Merger of DTRFA

Legislation enacted in 2014 merged the DTRFA with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	6/30/14 CAFR	Restated
Total pension liability	$ 24,901,612,000	$ 25,299,564,000
Plan fiduciary net position	20,293,684,000	20,519,756,000
Net pension liability	$ 4,607,928,000	$ 4,779,808,000

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, 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	
Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	8.00%
Wage inflation	3.00%
Projected salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.00%
Mortality assumption	
Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three years
Post-disability	RP 2000 disabled retiree mortality, without adjustment

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, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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

Teachers' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic 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 2015 is 5.73 years. The "Difference between Expected and Actual Experience" and "Changes of Assumptions" use the amortization period of 5.73 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 5 years as required by GASB 68. The "Changes in Proportion" uses a rounded amortization period of 5.0 years.

F. Discount Rate

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%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 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 available to make all projected future benefit payments of current active and inactive employees. 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.

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

Teachers' Retirement Association (Continued)

G. Net Pension Liability

On June 30, 2016, the District reported a liability of $466,497,802 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 $36,565,381 for a total liability allocated to the District of $503,063,183. The net pension liability was measured as of June 30, 2015, 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 7.5412% at the end of the measurement period and 7.9492% for the beginning of the year. An additional 0.5911% was allocated at June 30, 2015 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	$ 503,063,183
State's proportionate share of the net pension liability associated with the District	57,223,106

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 be 2.0% annually to 2.5% annually with no increase to 2.5% projected. The prior year valuation assumed a 2.5% increase commencing July 1, 2034.

For the year ended June 30, 2016, the District recognized pension expense of $27,565,969. It also recognized $10,116,306 as an increase to pension expense for the support provided by direct aid.

On June 30, 2016, the District had deferred resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 25,776,891	$ -
Net difference between projected and actual earnings on plan investments	-	38,475,338
Changes of assumptions	38,672,177	-
Changes in proportion	-	24,735,510
Contributions to TRA subsequent to the measurement date	35,247,476	-
Total	$ 99,696,544	$ 63,210,848

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

Teachers' Retirement Association (Continued)

G. Net Pension Liability (Continued)

$35,247,476 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, 2017.

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

2017	$ (7,855,874)
2018	(7,855,874)
2019	(7,855,872)
2020	20,825,518
2021	3,980,322

H. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% as well as the liability measured using 1% lower and 1% higher.

	District proportionate share of NPL		
	1% decrease (7.0%)	Current (8.0%)	1% increase (9.0%)
Standard share	$ 710,070,041	$ 466,487,802	$ 263,229,734
Direct aid share	55,657,243	36,565,381	20,632,671

The Employer'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.

I. 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 Fund (GERF)

All full-time and certain part-time employees of the District other than teachers are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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. PERA 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.

GERF Benefits

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 and Basic 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 Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. 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 2.7% of average salary for Basic Plan members and 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

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.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016, were $15,819,749. The District's contributions were equal to the required contributions as set by state statute

D. Pension Costs

GERF Pension Costs

At June 30, 2016, the District reported a liability of $184,165,995 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 3.5536%, which was an increase of 1.5860% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of $39,011,403 for its proportionate share of GERF's pension expense.

At June 30, 2016, the District reported its proportionate share of GERF's 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	$ 1,707,908	$ 9,285,095
Changes in actuarial assumptions	11,469,221	-
Difference between projected and actual investments earnings	-	22,508,848
Changes in proportion and differences between contributions made and district's proportion share of contributions	64,358,409	-
District's contributions to GERF subsequent to the measurement date	15,819,749	-
Total	$ 93,355,287	$ 31,793,943

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

$15,819,749 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	$ 15,990,540
2018	15,990,543
2019	9,401,978
2020	4,358,534

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumptions		
Inflation	2.75 %	Per year
Active member payroll growth	3.50	Per year
Investment rate of return	7.90	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9%. 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 on a regular basis 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 arithmetic 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 was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension 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 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 listed on the following page.

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's Proprionate share of the GERF net pension liability	$ 289,574,406	$ 184,165,995	$ 97,114,842

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

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

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 publicly available financial report.

B. Funding Policy

The District funds its OPEB obligation on a pay as you go basis. For fiscal year 2016, the District contributed $1,815,523 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation (asset):

Annual required contribution	$ 8,783,473
Interest on net OPEB obligation	395,256
Adjustment to ARC	(610,204)
Annual OPEB cost (expense)	8,568,525
Benefit payments (made outside of trust)	(495,229)
Implicit subsidy	(1,320,294)
Increase in net OPEB obligation	6,753,002
Net OPEB obligation - beginning of year	9,939,541
Net OPEB obligation - end of year	$ 16,692,543

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

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 Obligation
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
06/30/14	7,438,095	-	0%	6,900,530

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 financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

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

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Condensed Financial Statements

The financial statements for the OPEB Plan are reported below because the OPEB Plan does not issue a separate report.

OPEB Plan
Statement of Plan Net Position
June 30, 2016

Assets		
Cash and equivalents	$	31,821
Mutual funds		14,914,670
Total assets		14,946,491
Liabilities		
Payables	$	-
Net Position		
Held in trust for OPEB	$	14,946,491

Statement of Changes in Plan Net Position
For the Year ended June 30, 2015

Additions		
Interest revenue	$	309,104
Deductions		
Employee benefits		-
Change in net position		309,104
Net position		
Beginning of year		14,637,387
End of year	$	14,946,491

1. Notes to the Condensed Financial Statements

a. Plan Provisions

The Plan is described in detail on the previous pages, including Plan provisions and the authority for Plan changes.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Condensed Financial Statements (Continued)

2. Summary of Significant Accounting Policies

a. Basis of Accounting
The financial statements shown above and on the previous page are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which the employee services are performed. Benefits are recognized when due and payable.

b. Investments
The details of the investments and the investment policy are described in Note 1.D. of the District's financial statements.

c. 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 various estimates. Actual results could differ from those estimates.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs
Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

B. Contingencies
The District is subject to legal proceedings and claims which arise in the ordinary course of business. Management has accrued claims payable in the amount of $10,577,291 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 8 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, 2016, outstanding commitments for these multi-year projects total approximately $121,940,721.

NOTE 10 – RISK MANAGEMENT

The District accounts for the risk management activities of workers' compensation and general liability exposure in its Self-Insurance Fund, a proprietary-type Internal Service Fund. Inter-fund premiums for coverage are charged to activities of user funds as quasi-external transactions. The District purchases insurance coverage for its property exposure, with an aggregate coverage amount of $100,000,000.

The District is self-insured for workers' compensation coverage and caps its liability with the purchase of reinsurance coverage. The District is a member of Workers' Compensation Reinsurance Association (WCRA), which reimburses members for individual claim losses exceeding a member's chosen retention limit. The retention limit for the District at June 30, 2016 and 2015 was $2,000,000 and $1,960,000, respectively.

Liabilities of $9,458,893 have been recorded in the Self-Insurance Fund for known workers' compensation claims and for claims incurred but not reported as of June 30, 2016. The recorded reserves are actuarially evaluated annually and adjusted accordingly. The discount rate used at June 30, 2016 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 $1,118,398 have been established to cover such claims as of June 30, 2016.

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

Claims incurred but not reported or case Reserves at June 30, 2014	$	7,229,954
Claims incurred fiscal year 2015		7,358,383
Claims paid fiscal year 2015		(5,745,431)
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

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

NOTE 11 – COMPENSATED ABSENCES

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

A. Civil Service

1. All Civil Service Except Civil Service Administrators
   Employees and officers who at the time of retirement have accrued sick leave credit of no less than 60 days, and who have no less than 20 years of qualified service as computed for retirement purposes, or who have reached age 60, or who are required to retire earlier because of disability or having reached retirement age, receive severance pay amounting to 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.

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 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB Statement 74 relating to postemployment benefit plans other than pension plans administered through trusts that meet certain criteria and includes requirements for OPEB plans not administered through trusts. This new statement requires additional note disclosures and additional required supplementary information. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. We are recommending that a review of your actuarial study be completed with your actuarial firm to ensure compliance with the new standard.

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent to year-end, the District approved the issuance of General Obligation School Building Bonds, Series 2016A for $45,425,000; General Obligation Long-Term Facility Maintenance Bonds, Series 2016B for $56,090,000; and Certificates of Participation, Series 2016C for $23,770,000.

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REQUIRED SUPPLEMENTARY INFORMATION

Minneapolis Public Schools
Special District No. 1
Schedule of Funding Progress –
Other Post Employment Benefits
June 30, 2016

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, 2016

Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Contributed	Net OPEB Obligation (Asset)
06/30/14	$ 7,438,095	$ -	0%	$ 6,900,530
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

Minneapolis Public Schools
Special District No. 1
Schedule of District's Proportionate Share
of Net Pension Liability - GERF 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 Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	1.9676%	$ 92,427,990	$ 103,293,324	89.5%	78.7%
2016	3.5536%	184,165,995	205,393,680	89.7%	78.2%

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee 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%

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

* These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

Minneapolis Public Schools
Special District No. 1
Schedule of District's Proportionate Share
of Net Pension Liability - GERF 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-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 7,488,766	$ 7,488,766	$ -	$ 103,293,324	7.25%
2015	15,404,526	15,404,526	-	205,393,680	7.50%
2016	15,819,749	15,819,749	-	210,929,987	7.50%

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-Employee Payroll	Contributions as a Percentage of Covered-Employee 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	32,997,476	32,997,476	-	296,207,145	11.14%

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

* These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

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

TRA Retirement Funds

Changes of benefit terms

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

Changes of 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%. Details, if necessary, can be obtained from the TRA CAFR.

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SUPPLEMENTARY INFORMATION

Minneapolis Public Schools
Special District No. 1
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2016

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 585,227,545	$ 585,227,545	$ -
Total expenditures		606,384,716	606,384,714	2
Nonspendable:				
460	Nonspendable fund balance	853,532	853,532	-
Restricted/reserved:				
403	Staff Development	-	-	-
405	Deferred Maintenance	-	-	-
406	Health and Safety	-	-	-
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	-	-	-
436	State Approved Alternative Program	-	-	-
438	Gifted and Talented	293,573	293,573	-
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	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Committed:				
418	Committed for separation	-	-	-
461	Committed	-	-	-
Assigned:				
462	Assigned fund balance	25,350,565	25,350,565	-
Unassigned:				
422	Unassigned fund balance (net position)	54,219,695	54,219,695	-
02 Food Services Fund				
Total revenue		$ 22,486,250	$ 22,486,250	$ -
Total expenditures		22,027,820	22,027,822	(2)
Nonspendable:				
460	Nonspendable fund balance	484,372	484,372	-
Restricted/reserved:				
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	1,631,174	1,631,173	1
Unassigned:				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total revenue		$ 28,570,581	$ 28,570,580	$ 1
Total expenditures		26,563,620	26,563,621	(1)
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
426	$25 Taconite	-	-	-
431	Community Education	4,391,533	4,391,533	-
432	ECFE	1,202,910	1,202,910	-
440	Teacher Development and Evaluation	-	-	-
444	School Readiness	269,807	269,807	-
447	Adult Basic Education	1,297,774	1,297,774	-
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	270,976	270,976	-
Unassigned:				
463	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ 1,802,571	$ 1,802,571	$ -
Total expenditures		135,261,473	135,261,471	2
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
407	Capital Projects Levy	-	-	-
409	Alternative Facility Program	46,792,178	46,792,178	-
413	Building Projects Funded by COP/LP	-	-	-
Restricted:				
464	Restricted fund balance	94,495,044	94,495,045	(1)
Unassigned:				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 71,762,652	$ 71,762,653	$ (1)
Total expenditures		88,125,693	88,125,693	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
425	Bond refundings	-	-	-
451	QZAB and QSCB Payments	16,005,523	16,005,523	-
Restricted:				
464	Restricted fund balance	12,425,560	12,425,560	-
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		$ 9,376,373	$ 9,376,372	$ 1
Total expenditures		16,428,726	16,428,723	3
Unassigned:				
422	Unassigned fund balance (net position)	(12,089,481)	(12,089,481)	-
25 OPEB Revocable Trust				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
45 OPEB Irrevocable Trust				
Total revenue		$ 309,105	$ 309,104	$ 1
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	14,946,492	14,946,491	1
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	-	-	-