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

Financial Statements

June 30, 2018

bergan KDV
CPAS | ADVISORS

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

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

Minneapolis Public Schools
Special School District No. 1
Board of Education and Administration
June 30, 2018

Board of Education	Position	Term Expires
Nelson Inz	Chair	2019
Siad Ali	Vice Chair	2019
Kim Ellison	Clerk	2021
Jenny Arneson	Treasurer	2019
KerryJo Felder	Director	2021
Rebecca Gagnon	Director	2019
Ira Jourdain	Director	2021
Don Samuels	Director	2019
Bob Walser	Director	2021
Ben Jaeger	Student Representative	2019

Administration	
Ed Graff	Superintendent
Ibrahima Diop	Chief Financial Officer
Tariro Chapinduka	Executive Director - Finance
District Offices	Special School District No. 1 Minneapolis Public Schools 1250 West Broadway Avenue Minneapolis, MN 55411 (612) 668-0000

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Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Minneapolis Public Schools, Special School District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

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Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Minneapolis Public Schools, Special School District No. 1, Minneapolis, Minnesota, as of June 30, 2018, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund, the Food Service Special Revenue Fund, and the Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 75

As discussed in Note 13 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
November 29, 2018

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

This section of the District's annual financial report presents a discussion and analysis of the District's financial performance during fiscal year ended June 30, 2018. 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 (2017-2018) and the prior year (2016-2017) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- Total combined fund balance of all the District's governmental funds increased $20.9 million, from the prior year. This net increase was due primarily to lack of capital outlay expenditures for building constructions over proceeds from bond issuances, current expenditure reduction in Instructional support, Pupil Support, Elementary and Regular Instruction, Special Education and Administration offset by an increase in current expenditures for District Support Services, Vocational Education and Community Education over revenue. Total governmental fund revenues were $722 million, an increase of about $11 million over the prior year of $710.6 million. Revenue from property taxes and state sources increased from prior year. Property taxes increased by $6.6 million or 3.4% primarily due to favorable fluctuations in property values, fewer delinquencies and other inflationary factors. State revenue increase by $6.8 million primarily due to increase in enrollment.

- Total governmental fund expenditures were $838 million, up $38 million, or an increase of 4.5% from the prior year. This increase is primarily related to an increase of $46 million related to building construction and a decrease of $13 million related to Instructional Support. Total current expenditures decreased by 2% or $11.6 million. Specifically, current expenditures by program increased in the following programs: District Support Services by $7.4 million or 28%, Vocational Education Instruction by $0.1 million or 4% and Community Education by $1.3 million or 4%. Additionally, current expenditures decreased in the following programs: Administration by $1.8 million or 12%, Elementary and Secondary Instruction by $2 million or 1%, and Special Education Instruction by $2.2 million or 2%, Instructional Support by $12.7 million or 26%, Pupil Support by $2.5 million or 4%, Sites and Buildings by $0.3 million or 0.5%, and Food Services by $0.7 million or 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- The remaining statements are **fund financial statements** that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the government-wide statements.

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

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

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

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

Government-Wide Statements

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

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

The District has three kinds of funds:

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was negative $1 billion on June 30, 2018. This was a change of 46% from the prior year (see Table A-1).

Table A-1

The District's Net Position

	Primary Government		
	Governmental Activities		Percentage
	2018	2017	Change
Current and other assets	$ 631,879,817	$ 578,446,875	9.24%
Capital assets	704,772,041	646,314,036	9.04%
Total assets	1,336,651,858	1,224,760,911	9.14%
Deferred outflows of resources	1,155,379,036	1,595,377,321	-27.58%
Total assets and deferred outflows of resources	2,492,030,894	2,820,138,232	-11.63%
Current liabilities	153,461,832	132,079,282	16.19%
Long-term liabilities	2,656,512,616	3,161,255,408	-15.97%
Total liabilities	2,809,974,448	3,293,334,690	-14.68%
Deferred inflows of resources	683,363,619	212,253,297	221.96%
Net position			
Net investment in capital assets	159,397,295	149,160,083	6.86%
Restricted	35,798,200	35,723,982	0.21%
Unrestricted	(1,196,502,668)	(870,333,620)	-37.48%
Total net position	$ (1,001,307,173)	$ (685,449,555)	-46.08%

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 $36 million, due to the district implementing GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions. This resulted in an adjustment to the beginning net position on the Statement of Activities of approximately $36 million as presented in the table above, net investment in capital assets increased by $10.2 million over the prior year, while restricted net position remained flat and unrestricted net position decreased by approximately $317.7 million.

The District's increase in current and other assets is due to increase in cash and investments because of unspent bond proceeds for building construction as well as a reduction in projected deficit. The District's decrease in total liabilities is due to reduction in long-term liabilities due in more than one year. Pension related liability decreased by approximately $616 million from prior year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's *government-wide* total revenues were approximately $722 million for the year ended June 30, 2018. Property taxes and unrestricted state aid accounted for 71% of total revenue for the year. An additional 1% came from other general revenues, and the remaining 28 % from program revenues (Table A-2).

Table A-2
Change in Net Position

	Primary Government Governmental Activities for the Fiscal Year Ended June 30, 2018	2017	Percentage Change
Revenues			
Program revenues			
Charges for services	$ 16,379,816	$ 17,204,739	-4.79%
Operating grants and contributions	180,608,137	156,341,813	15.52%
Capital grants and contributions	11,198,000	10,733,375	4.33%
General revenues			
Property taxes	193,769,032	185,955,797	4.20%
State formula aid	316,909,702	353,255,021	-10.29%
Other	3,850,132	12,611,235	-69.47%
Total revenues	722,714,819	736,101,980	-1.82%
Expenses			
District and school administration	$ 24,413,289	$ 29,036,288	-15.92%
District support services	30,190,752	22,972,094	31.42%
Regular instruction	461,472,662	494,078,827	-6.60%
Vocational instruction	6,528,984	6,788,131	-3.82%
Special education instruction	170,696,488	185,485,643	-7.97%
Instructional support services	66,244,175	90,336,077	-26.67%
Pupil support services	80,939,128	87,780,289	-7.79%
Sites, buildings, and equipment	77,919,006	82,267,082	-5.29%
Fiscal and other fixed cost programs	594,641	559,310	6.32%
Food service	22,597,860	23,606,809	-4.27%
Community education and services	37,364,970	36,961,573	1.09%
Interest and fiscal charges on long-term debt	23,770,907	20,999,111	13.20%
Total expenses	1,002,732,862	1,080,871,234	-7.23%
Change in net position	(280,018,043)	(344,769,254)	-18.78%
Change in accounting principle (GASB 75)	(35,839,375)	-	N/A
Net position - beginning	(721,289,130)	(340,680,501)	
Net position - ending	$ (1,001,307,173)	$ (685,449,755)	46.08%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Total cost of all programs and services was $1 billion in fiscal 2018. District expenses were primarily related to educating and caring for students (79%). The District's Community and Nutritional Service programs accounted for 6% of expenses while facility maintenance totaled 8% and fiscal/other fixed cost expenses totaled 2%. District and School Administration and District Support Services accounted for 5% of total expenses during fiscal 2018. (see Figure A-2 on next page).

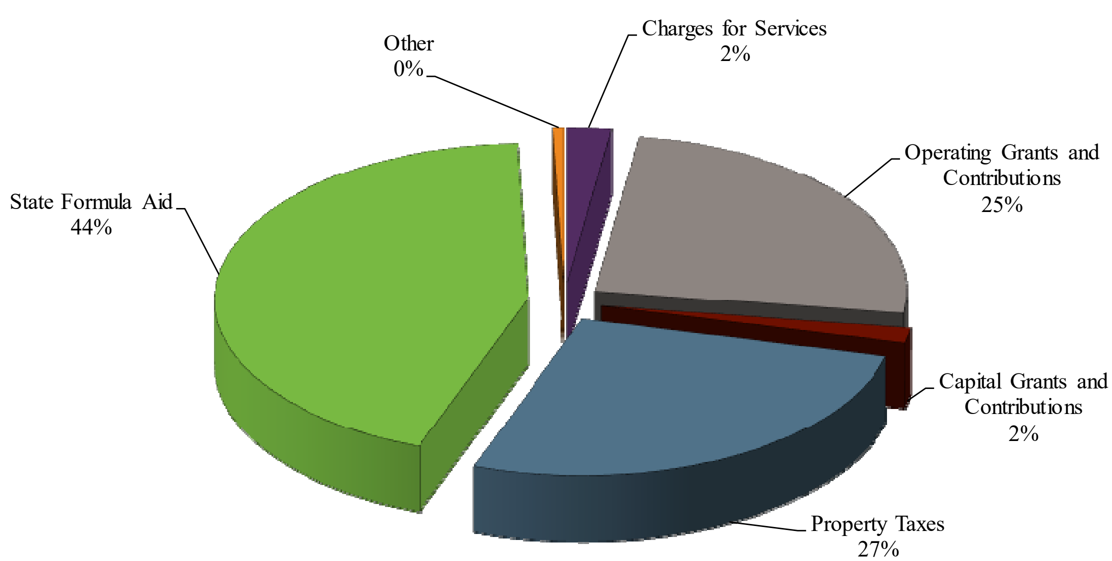
The cost of all *governmental* activities this year was $1 billion.

- Some of the costs were paid by the users of the District's programs (Table A-2 previous page, Charges for Services, $16.3 million).

- The federal and state governments subsidized certain programs with grants and contributions (Table A-2, Operating and Capital Grants and Contributions, $191.8 million).

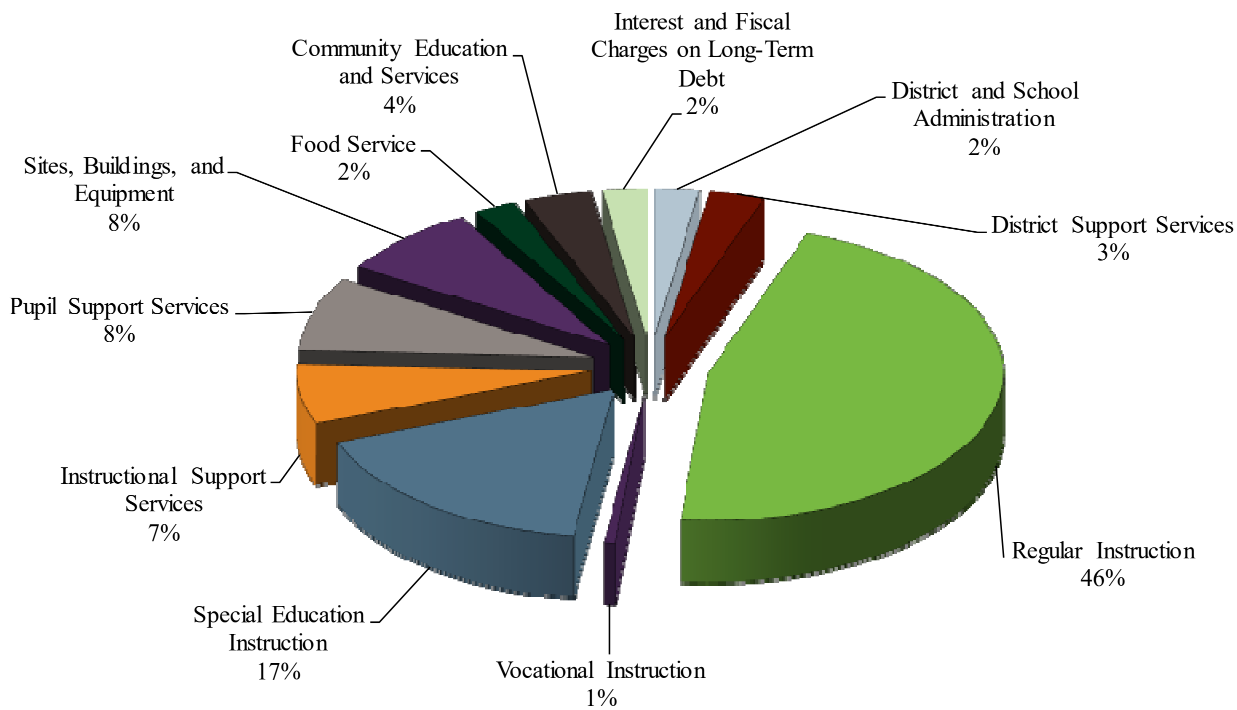
- Most of the District's costs were paid for with local property taxes of $194.0 million, unrestricted state aid of $317 million, and other general revenues of $3.8 million.

Figure A-1
Sources of Revenue
Fiscal Year 2018



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-2
Expenses
Fiscal Year 2018



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 2018	Total Cost of Services 2017	Percentage Change	Net Cost of Services 2018	Net Cost of Services 2017	Percentage Change
Administration	$ 24,413,289	$ 29,036,288	-15.92%	$23,917,967	$26,782,186	-10.69%
District Support Services	30,190,752	22,972,094	31.42%	28,619,220	22,946,660	24.72%
Elementary and Secondary Regular Instruction	461,472,662	494,078,827	-6.60%	407,306,959	453,780,861	-10.24%
Vocational Education Instruction	6,528,984	6,788,131	-3.82%	5,959,917	6,202,898	-3.92%
Special Education Instruction	170,696,488	185,485,643	-7.97%	90,931,052	110,033,354	-17.36%
Instructional Support Services	66,244,175	90,336,077	-26.67%	58,025,682	86,634,414	-33.02%
Pupil Support Services	80,939,128	87,780,289	-7.79%	76,272,898	83,837,963	-9.02%
Sites and Buildings	77,919,006	82,267,082	-5.29%	65,270,309	79,892,755	-18.30%
Fiscal and Other Fixed Cost Programs	594,641	559,310	6.32%	(1,132,483)	(1,184,570)	-4.40%
Food Service	22,597,860	23,606,809	-4.27%	713,789	1,084,235	-34.17%
Community Education and Services	37,364,970	36,961,573	1.09%	14,890,692	16,314,815	-8.73%
Interest and Fiscal Charges On long-term debt/depreciation	23,770,907	20,999,111	13.20%	23,770,907	10,265,736	131.56%
Total	$ 1,002,732,862	$ 1,080,871,234	-7.23%	$794,546,909	$ 896,591,307	-11.38%

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 $326 million, or a $21 million increase over last year. The increase is primarily attributable to unspent bond proceeds for building constructions as well as reductions in expenditure in instructional support, special education and elementary and regular instruction.

The District's governmental funds reported total expenditures of $838 million and total revenues of $722 million. Based on these results, fund balance would have decreased by $116 million. The District also reported an increase in fund balance of $136 million as a result of new bond issues including bond premiums of $17.7 million during the year. These other sources of financing along with the increase in expenditures over revenues resulted in an overall increase to the *combined* fund balance of $21 million from the prior year.

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

ENROLLMENT

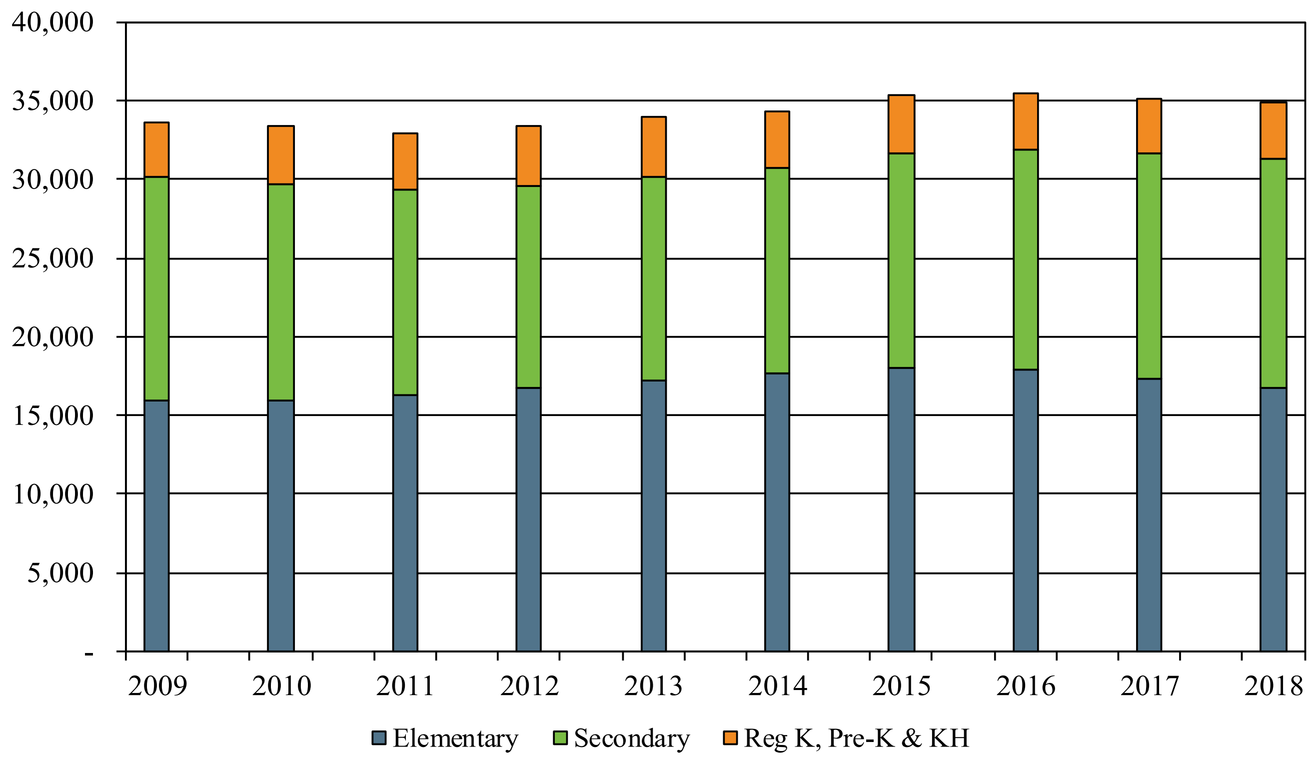
Enrollment is a critical factor in determining revenue. The following chart shows that the number of students has increased over each of the past four years. There was a slight decrease in enrollment over the last year of -0.87%.

Table A-4

Student Enrollment (Average Daily Membership)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Reg K, Pre-K & KH	3,469	3,708	3,656	3,728	3,789	3,582	3,682	3,587	3,516	3,556
Elementary	15,939	15,982	16,236	16,725	17,218	17,643	17,964	17,866	17,319	16,768
Secondary	14,256	13,671	13,087	12,878	12,985	13,086	13,740	14,019	14,311	14,517
Total students for aid	33,664	33,361	32,979	33,331	33,992	34,311	35,386	35,472	35,146	34,841
Percentage change	-4.74%	-0.90%	-1.15%	1.07%	1.98%	0.94%	3.13%	0.24%	-0.92%	-0.87%

Figure A-3
Student Enrollment
(Average Daily Membership)



GENERAL FUND

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

Table A-5

General Fund Revenues

	Year Ended June 30,		Increase	Percentage
	2018	2017	(Decrease	Change
Local sources				
Property taxes	$122,930,971	$117,942,218	$ 4,988,753	4.23%
Earnings on investments	1,161,457	1,221,560	(60,103)	-4.92%
Other	14,544,033	16,749,613	(2,205,580)	-13.17%
State sources	408,375,976	402,839,217	5,536,759	1.37%
Federal sources	42,823,711	43,016,218	(192,507)	-0.45%
Total	$ 589,836,148	$ 581,768,826	$ 8,067,322	1.39%

General Fund revenue increased by $8.1 million or 1.4%, from the previous year.

Revenue increased in fiscal year 2018 primarily due to favorable fluctuations in property values, fewer delinquencies, other inflationary factors and an increase in per pupil formula allowance.

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

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

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

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

GENERAL FUND (CONTINUED)

3. Federal Sources
   The largest source of federal funding are those received under the 1965 Elementary and Secondary Education Act as reauthorized as the Every Student Succeeds Act (ESSA) in December of 2015, replacing the No Child Left Behind Act (NCLB). It is one of the United States Federal Government's largest assistance programs for schools.

The following schedule presents a summary of General Fund Expenditures.

Table A-6

General Fund Expenditures

	Year Ended June 30,		Increase	Percentage
	2018	2017	(Decrease)	Change
Salaries	$ 367,283,139	$ 378,367,752	$ (11,084,613)	-2.93%
Employee benefits	127,163,322	130,707,285	(3,543,963)	-2.71%
Purchased services	67,374,801	69,502,676	(2,127,875)	-3.06%
Supplies and materials	21,425,056	19,667,669	1,757,387	8.94%
Capital expenditures	5,602,255	2,824,954	2,777,301	98.31%
Other expenditures	4,768,529	4,859,492	(90,963)	-1.87%
Total	$ 593,617,102	$ 605,929,828	$ (12,312,726)	-2.03%

Total General Fund expenditures decreased by $12 million or 2% from the previous year.

General Fund salaries and benefits decreased $14 million combined for the year.

DEBT SERVICE FUND

The Debt Service Fund had excess expenditures over revenues of $0.7 million, ending with a fund balance of $25.2 million.

OTHER MAJOR FUNDS

Revenues exceeded expenditures by about $0.3 million in the Food Service Fund and resulted in an increase to fund balance bringing the total fund balance to $3.1 million. In the Community Service Fund, revenues exceeded expenditures by about $0.3 million, resulting in an ending fund balance of about $8.9 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018, the District had invested approximately $704 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 $33 million.

Table A-7

Capital Assets (Net of Depreciation)

	2018	2017	Percentage Change
Land and construction in progress	$ 138,728,237	$ 110,566,162	25.47%
Other capital assets	566,043,804	535,747,874	5.65%
Total	$ 704,772,041	$ 646,314,036	9.04%

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 2018 to $6,188 per pupil or 2% from the prior year. With significant union contracts, mandatory compliance cost, uncertain political environment and growing demand on limited resources continue to present challenges in funding education for Minnesota schools.

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

During fiscal year 2017, the District's Executive Leadership proposed to the Board of Education priorities, which focused on four core areas. The areas of focus includes four priorities (Equity, Literacy, Social Emotional Learning and Multi- Tiered System of Supports). The plan is bold, ambitious and seeks to address the disparity gap that exists in Minneapolis Public Schools. Specifically, this plan calls for the following:

- All children are ready to start kindergarten.
- All third-graders can read at grade level.
- All achievement gaps between students are closed.
- All students are ready for career and/or post-secondary education.
- All students graduate from high school

These targets have been set to reignite a sense of urgency in the system and ensure that everyone is operating with a growth mindset.

REQUEST FOR INFORMATION

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

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

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BASIC FINANCIAL STATEMENTS

Minneapolis Public Schools
Special School District No. 1
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash and investments	$ 454,509,282
Cash and investments held by trustee	19,969,934
Receivables	
Property taxes	99,228,278
Other governments	55,702,972
Other	1,543,132
Inventory	926,219
Capital assets	
Land and construction in progress	138,728,237
Other capital asset, net of depreciation	566,043,804
Total assets	1,336,651,858
Deferred Outflows of Resources	
Deferred outflows related to pensions	1,155,379,036
Total assets and deferred outflows of resources	$ 2,492,030,894
Liabilities	
Salaries and compensated absences payable	$ 41,112,744
Accounts and contracts payable	30,982,165
Accrued interest	12,461,519
Due to other governmental units	605,976
Unearned revenue	2,118,158
Long-term liabilities	
Portion due within one year	66,181,270
Portion due in more than one year	2,656,512,616
Total liabilities	2,809,974,448
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	176,865,382
Deferred charge on refunding	71,435
Deferred inflows related to OPEB	8,589,289
Deferred inflows related to pensions	497,837,513
Total deferred inflows of resources	683,363,619
Net Position	
Net investment in capital assets	159,397,295
Restricted for	
General Fund state-mandated reserves	1,107,421
Food Service	3,125,293
Community Service	9,045,188
Debt Service	13,642,292
Capital Projects	8,878,006
Unrestricted	(1,196,502,668)
Total net position	(1,001,307,173)
Total liabilities, deferred inflows of resources, and net position	$ 2,492,030,894

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Total Governmental Activities
Governmental activities					
Administration	$ 24,413,289	$ -	$ 495,322	$ -	$ (23,917,967)
District support services	30,190,752	-	1,571,532	-	(28,619,220)
Elementary and secondary regular instruction	461,472,662	741,113	53,424,590	-	(407,306,959)
Vocational education instruction	6,528,984	-	569,067	-	(5,959,917)
Special education instruction	170,696,488	3,796,460	75,968,976	-	(90,931,052)
Instructional support services	66,244,175	101,760	8,116,733	-	(58,025,682)
Pupil support services	80,939,128	100,019	4,566,211	-	(76,272,898)
Sites and buildings	77,919,006	1,178,252	272,445	11,198,000	(65,270,309)
Fiscal and other fixed cost programs	594,641	-	1,727,124	-	1,132,483
Food service	22,597,860	1,809,691	20,074,380	-	(713,789)
Community education and services	37,364,970	8,652,521	13,821,757	-	(14,890,692)
Interest and fiscal charges on long-term debt	23,770,907	-	-	-	(23,770,907)
Total governmental activities	$ 1,002,732,862	$ 16,379,816	$ 180,608,137	$ 11,198,000	(794,546,909)

General revenues	
Taxes	
Property taxes, levied for general purposes	123,108,189
Property taxes, levied for community service	5,536,744
Property taxes, levied for debt service	65,124,099
State aid not restricted to specific purposes	316,909,702
Earnings on investments	3,148,581
Gain on sale of capital assets	1,566
Miscellaneous	699,985
Total general revenues	514,528,866
Change in net position	(280,018,043)
Net position - beginning, as previously stated	(685,449,755)
Change in accounting principle (see note 13)	(35,839,375)
Net position - beginning, as restated	(721,289,130)
Net position - ending	$ (1,001,307,173)

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Balance Sheet - Governmental Funds
June 30, 2018

	Major Funds			
	General	Food Service	Community Service	Capital Project-Building Construction
Assets				
Cash and investments	$ 94,582,285	$ 2,081,764	$ 11,338,299	$ 246,298,903
Cash and investments held by trustee	-	-	-	418,135
Receivables				
Current property taxes receivable	54,511,152	-	2,514,676	-
Delinquent property taxes receivable	1,533,204	-	69,020	-
Due from other Minnesota school districts	-	-	313	-
Due from Minnesota Department of Education	36,781,223	28,066	1,270,908	-
Due from Federal Government through Minnesota Department of Education	12,195,805	1,436,949	260,240	-
Due from Federal Government received directly	710,898	-	-	-
Due from other governmental units	1,878,239	-	10,368	-
Other receivables	1,253,223	3,675	158,314	127,920
Inventory	90,987	835,232	-	-
Total assets	$ 203,537,016	$ 4,385,686	$ 15,622,138	$ 246,844,958
Liabilities				
Salaries and compensated absences payable	$ 34,907,693	$ -	$ -	$ -
Payroll deductions and employer contributions payable	6,205,051	-	-	-
Accounts and contracts payable	8,495,753	899,231	543,333	20,756,266
Due to other governmental units	603,298	2,678	-	-
Unearned revenue	750,681	358,484	792,342	216,651
Total liabilities	50,962,476	1,260,393	1,335,675	20,972,917
Deferred Inflows of Resources				
Property taxes levied for subsequent year's expenditures	88,525,927	-	5,241,275	-
Unavailable revenue - delinquent property taxes	1,533,204	-	69,020	-
Total deferred inflows of resources	90,059,131	-	5,310,295	-
Fund Balances				
Nonspendable				
Inventory	90,987	835,232	-	-
Restricted for				
Area learning center	808,181	-	-	-
Graduation standards - gifted and talented	299,240	-	-	-
Long-term facilities maintenance	-	-	-	110,824,639
Community education programs	-	-	5,212,717	-
Early childhood and family educations programs	-	-	879,186	-
School readiness	-	-	1,311,264	-
Adult basic education	-	-	1,263,834	-
QSCB/QZAB	-	-	-	-
Building construction	-	-	-	115,047,402
Other purposes	-	2,290,061	309,167	-
Assigned	29,671,886	-	-	-
Unassigned	31,645,115	-	-	-
Total fund balances	62,515,409	3,125,293	8,976,168	225,872,041
Total liabilities, deferred inflows of resources, and fund balances	$ 203,537,016	$ 4,385,686	$ 15,622,138	$ 246,844,958

See notes to financial statements.

Debt Service	Post Employment Benefits Debt Service	Total Governmental Funds
$ 46,644,284	$ 1,275,719	$ 402,221,254
19,551,799	-	19,969,934
38,669,285	1,126,703	96,821,816
804,238	-	2,406,462
-	-	313
1,115,712	999	39,196,908
-	-	13,892,994
-	-	710,898
13,252	-	1,901,859
-	-	1,543,132
-	-	926,219
$ 106,798,570	$ 2,403,421	$ 579,591,789
$ -	$ -	$ 34,907,693
-	-	6,205,051
-	-	30,694,583
-	-	605,976
-	-	2,118,158
-	-	74,531,461
80,750,517	2,347,663	176,865,382
804,238	-	2,406,462
81,554,755	2,347,663	179,271,844
-	-	926,219
-	-	808,181
-	-	299,240
-	-	110,824,639
-	-	5,212,717
-	-	879,186
-	-	1,311,264
-	-	1,263,834
19,969,934	-	19,969,934
-	-	115,047,402
5,273,881	55,758	7,928,867
-	-	29,671,886
-	-	31,645,115
25,243,815	55,758	325,788,484
$ 106,798,570	$ 2,403,421	$ 579,591,789

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Minneapolis Public Schools
Special School District No. 1
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2018

Total fund balances - governmental funds	$ 325,788,484
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	103,281,936
Buildings and improvements, net of accumulated depreciation	553,541,058
Equipment, net of accumulated depreciation	12,502,746
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	(435,020,000)
Unamortized bond premiums and discounts	(65,997,346)
Certificate of participation payable	(269,890,000)
Net other post employment benefit liability	(53,500,288)
Net pension liability	(1,846,484,997)
Deferred charge on refunding	(71,435)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows related to pensions	1,155,379,036
Deferred inflows related to pensions	(497,837,513)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to OPEB that are not recognized in the governmental funds.	
Deferred inflows related to OPEB	(8,589,289)
Governmental funds do not report a liability for accrued interest on bonds and certificates of participation until due and payable.	(12,461,519)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	2,406,462
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:	199,191
Total net position - governmental activities	$ (1,001,307,173)

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2018

	Major Funds			
	General	Food Service	Community Service	Capital Project-Building Construction
Revenues				
Local sources				
Property taxes	$ 122,930,971	$ -	$ 5,529,590	$ -
Earnings on investments	1,161,457	13,168	70,950	1,118,132
Other	14,544,033	1,935,049	9,184,395	131,045
Revenue from state sources	408,375,976	762,722	13,765,322	-
Revenue from federal sources	42,823,711	19,186,298	1,956,316	-
Total revenues	589,836,148	21,897,237	30,506,573	1,249,177
Expenditures				
Current				
Administration	15,547,683	-	-	-
District support services	27,059,474	-	-	-
Elementary and secondary regular instruction	277,152,841	-	-	-
Vocational education instruction	4,166,786	-	-	-
Special education instruction	116,754,950	-	-	-
Instructional support services	48,331,889	-	-	-
Pupil support services	63,842,797	-	-	-
Sites and buildings	34,563,786	-	-	35,978,193
Fiscal and other fixed cost programs	594,641	-	-	-
Food service	-	21,226,849	-	-
Community education and services	-	-	29,788,981	-
Capital Outlay				
Administration	282	-	-	-
District support services	577,776	-	-	-
Elementary and secondary regular instruction	180,729	-	-	-
Vocational education instruction	29,868	-	-	-
Special education instruction	231	-	-	-
Instructional support services	29,129	-	-	-
Pupil support services	3,170,658		-	-
Sites and buildings	1,613,582	-	-	76,203,678
Food service	-	419,476	-	-
Community education and services	-	-	445,994	-
Debt Service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	959,562
Total expenditures	593,617,102	21,646,325	30,234,975	113,141,433
Excess of revenues over (under) expenditures	(3,780,954)	250,912	271,598	(111,892,256)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	1,566	-	-
Bond issuance	-	-	-	119,025,000
Bond premium	-	-	-	17,676,619
Total other financing sources (uses)	-	1,566	-	136,701,619
Net change in fund balances	(3,780,954)	252,478	271,598	24,809,363
Fund Balances				
Beginning of year	66,296,363	2,872,815	8,704,570	201,062,678
End of year	$ 62,515,409	$ 3,125,293	$ 8,976,168	$ 225,872,041

See notes to financial statements.

Debt Service	Post Employment Benefits Debt Service	Total Governmental Funds
$ 62,717,831	$ 2,303,869	$ 193,482,261
317,889	-	2,681,596
-	-	25,794,522
11,465,118	9,988	434,379,126
1,727,124	-	65,693,449
76,227,962	2,313,857	722,030,954
-	-	15,547,683
-	-	27,059,474
-	-	277,152,841
-	-	4,166,786
-	-	116,754,950
-	-	48,331,889
-	-	63,842,797
-	-	70,541,979
-	-	594,641
-	-	21,226,849
-	-	29,788,981
-	-	282
-	-	577,776
-	-	180,729
-	-	29,868
-	-	231
-	-	29,129
-	-	3,170,658
-	-	77,817,260
-	-	419,476
-	-	445,994
49,880,000	2,045,000	51,925,000
27,051,473	213,099	28,224,134
76,931,473	2,258,099	837,829,407
(703,511)	55,758	(115,798,453)
-	-	1,566
-	-	119,025,000
-	-	17,676,619
-	-	136,703,185
(703,511)	55,758	20,904,732
25,947,326	-	304,883,752
$ 25,243,815	$ 55,758	$ 325,788,484

Minneapolis Public Schools
Special School District No. 1
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2018

Net change in fund balances - total governmental funds	$ 20,904,732
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	91,474,074
Net book value of disposed assets	(25,428)
Depreciation expense	(32,990,640)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities and repayment of principal reduces the liability. Also, governmental funds report the effect of discounts and premium when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of 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	(45,090,000)
Long-term facility maintenance proceeds	(51,910,000)
Certificates of participation proceeds	(22,025,000)
Bond premium	(17,676,619)
Repayment of certificates of participation payable	26,170,000
Repayment of bond principal	25,755,000
Change in accrued interest expense	(1,744,023)
Amortization of bond premiums and discounts	6,185,344
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.	495,522
Net other post employement benefit liabilities are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(3,543,770)
Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	
Pension expense	(276,295,912)
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.	286,771
Change in net position - governmental activities	$ (280,018,043)

See notes to financial statements.

Minneapolis Public Schools
Special School District No. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues				
Local sources				
Local property taxes	$ 119,704,123	$ 119,704,123	$ 122,930,971	$ 3,226,848
Earnings on investments	-	-	1,161,457	1,161,457
Other local and county revenues	20,778,661	19,105,244	14,151,630	(4,953,614)
Revenue from state sources	403,932,202	405,605,619	408,375,976	2,770,357
Revenue from federal sources	40,500,000	40,500,000	42,823,711	2,323,711
Sales and other conversion of assets	-	-	392,403	392,403
Total revenues	584,914,986	584,914,986	589,836,148	4,921,162
Expenditures				
Current				
Administration	15,448,406	14,571,650	15,547,683	976,033
District support services	25,509,728	26,210,651	27,059,474	848,823
Elementary and secondary regular instruction	288,259,578	284,585,795	277,152,841	(7,432,954)
Vocational education instruction	4,069,254	4,036,534	4,166,786	130,252
Special education instruction	120,499,971	123,427,215	116,754,950	(6,672,265)
Instructional support services	48,950,223	49,327,848	48,331,889	(995,959)
Pupil support services	68,116,423	68,081,348	63,842,797	(4,238,551)
Sites and buildings	32,779,277	33,177,962	34,563,786	1,385,824
Fiscal and other fixed cost programs	596,810	596,810	594,641	(2,169)
Capital Outlay				
Administration	2,500	2,500	282	(2,218)
District support services	-	-	577,776	577,776
Elementary and secondary regular instruction	135,833	191,296	180,729	(10,567)
Vocational education instruction	-	31,587	29,868	(1,719)
Special education instruction	-	-	231	231
Instructional support services	1,000	8,882	29,129	20,247
Pupil support services	1,623,490	1,792,040	3,170,658	1,378,618
Sites and buildings	1,159,708	1,110,083	1,613,582	503,499
Total expenditures	607,152,201	607,152,201	593,617,102	(13,535,099)
Excess of revenues over (under) expenditures	(22,237,215)	(22,237,215)	(3,780,954)	18,456,261
Other Financing Sources				
Bond issuance	5,721,339	5,721,339	-	(5,721,339)
Net change in fund balance	$ (16,515,876)	$ (16,515,876)	(3,780,954)	$ 12,734,922
Fund Balance				
Beginning of year			66,296,363	
End of year			$ 62,515,409	

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local sources				
Earnings on investments	$ -	$ -	$ 13,168	$ 13,168
Other local and county revenues	20,000	20,000	125,358	105,358
Revenue from state sources	773,676	773,676	762,722	(10,954)
Revenue from federal sources	19,169,912	19,169,912	19,186,298	16,386
Sales and other conversion of assets	2,223,804	2,223,804	1,809,691	(414,113)
Total revenues	22,187,392	22,187,392	21,897,237	(290,155)
Expenditures				
Current				
Food service	21,645,076	21,780,378	21,226,849	(553,529)
Capital outlay				
Food service	475,000	339,698	419,476	79,778
Total expenditures	22,120,076	22,120,076	21,646,325	(473,751)
Excess of revenues over expenditures	67,316	67,316	250,912	183,596
Other Financing Sources				
Sale of capital assets	-	-	1,566	1,566
Net change in fund balance	$ 67,316	$ 67,316	252,478	$ 185,162
Fund Balance				
Beginning of year			2,872,815	
End of year			$ 3,125,293	

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local sources				
Local property taxes	$ 5,290,767	$ 5,290,767	$ 5,529,590	$ 238,823
Earnings on investments	-	-	70,950	70,950
Other local and county revenues	9,314,334	9,314,334	9,184,395	(129,939)
Revenue from state sources	12,702,164	12,702,164	13,765,322	1,063,158
Revenue from federal sources	1,458,458	1,458,458	1,956,316	497,858
Total revenues	28,765,723	28,765,723	30,506,573	1,740,850
Expenditures				
Current				
Community education and services	30,753,277	30,800,749	29,788,981	(1,011,768)
Capital outlay				
Community education and services	166,660	119,188	445,994	326,806
Total expenditures	30,919,937	30,919,937	30,234,975	(684,962)
Excess of revenues over (under) expenditures	$ (2,154,214)	$ (2,154,214)	271,598	$ 2,425,812
Fund Balance				
Beginning of year			8,704,570	
End of year			$ 8,976,168	

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Statement of Net Position - Proprietary Fund
Internal Service Fund
June 30, 2018

Assets	
Current assets	
Cash and cash equivalents	$ 52,288,028
Total assets	$ 52,288,028
Liabilities	
Current liabilities	
Accounts payable	$ 287,582
Accrued severance	3,735,177
Loss and loss adjustment reserves	
Workers' compensation	2,477,000
Incurred but not reported reserves	
Accrued health insurance benefits	2,779,093
Total current liabilities	9,278,852
Noncurrent liabilities	
Loss and loss adjustment reserves	
Workers' compensation	4,309,197
Incurred but not reported reserves	
Workers' compensation	4,309,196
Property/casualty	575,000
Accrued severance	33,616,592
Total noncurrent liabilities	42,809,985
Total liabilities	$ 52,088,837
Net Position	
Unrestricted	$ 199,191

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, 2018

Operating Revenue	
Local sources - charges for services	$ 64,732,585
Operating Expenses	
Loss and loss adjustments	826,517
Claims administration	5,485,136
Workers compensation and other benefits	9,781,126
Self-Insured Medical Benefits	42,487,627
Severance	6,214,603
Total operating expenses	64,795,009
Operating loss	(62,424)
Nonoperating Revenue	
Insurance recoveries	90,961
Earnings on investments	466,985
Total nonoperating revenue	557,946
Change in net position	495,522
Net Position	
Beginning of year	(296,331)
End of year	$ 199,191

See notes to financial statements.

Minneapolis Public Schools
Special District No. 1
Statement of Cash Flows - Proprietary Fund
Internal Service Fund
June 30, 2018

Cash Flows - Operating Activities	
Receipts from premiums	$ 64,821,375
Claims administration	(5,487,556)
Claims and severence benefits paid	(52,522,207)
Net cash flows - operating activities	6,811,612
Cash Flows - Noncapital Financing Activities	
Insurance proceeds	90,961
Cash Flows - Investing Activities	
Investment earnings	466,985
Net change in cash and cash equivalents	7,369,558
Cash and Cash Equivalents	
Beginning of year	44,918,470
End of year	$ 52,288,028
Reconciliation of Operating Loss to Net Cash Flows - Operating Activities	
Operating loss	$ (62,424)
Adjustments to reconcile operating loss to net cash flows - operating activities	
Accounts payable	158,222
Prepaid insurance	322,156
Accounts receivable	88,790
Loss and loss adjustment reserves	159,848
Accrued health insurance benefits	(769,287)
Accrued compensated absences	6,914,307
Net adjustments	6,874,036
Net cash flows - operating activities	$ 6,811,612

Minneapolis Public Schools
Special School District No. 1
Statement of Fiduciary Net Position
June 30, 2018

	Other Post Employment Benefits Irrevocable Trust Fund
Assets	
Current	
Cash and Investments	$ 19,236,786
Net Position Restricted for	
Postemployment benefits other than pensions	$ 19,236,786

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2018

	Other Post Employment Benefits Irrevocable Trust Fund
Additions	
Contributions	$ 2,000,000
Investment income	1,018,090
Total additions	3,018,090
Change in net position	3,018,090
Net Position Restricted for	
Postemployment Benefits Other than Pensions	
Beginning of year	16,218,696
End of year	$ 19,236,786

See notes to financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Reporting Entity

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

Major Governmental Funds:

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

Proprietary Fund:

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

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

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

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

Fiduciary Fund:

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

E. Budgeting

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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

F. Cash and Investments

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

District Governmental Funds

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

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

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

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

Cash and investments at June 30, 2018 were comprised of deposits, negotiable certificates of deposit, shares in the Minnesota School District Liquid Asset Fund (MSDLAF), government securities, FHLB, FHLMC, FNMA, and money market funds.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments (Continued)

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

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

OPEB Irrevocable Trust Fund
These funds represent investments administered by the District's OPEB Irrevocable Trust Fund investment managers. As of June 30, 2018, they were comprised of mutual funds. The District's investment policy extends to the OPEB Irrevocable Trust Fund investments.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2017, 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 2018. The remaining portion of the levy will be recognized when measurable and available.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

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

L. Capital Assets

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

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

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

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

M. Long-Term Obligations

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

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

N. Compensated Absences

The District's employee vacation and sick leave policies grant to certain groups of employees, if certain conditions are met (see Note 11), a specific number of days of vacation with pay and payment for unused sick leave upon retirement. On June 30, 1998, the District established an internal service fund to accrue for and fund the liability for vacation earned and not yet taken, vested sick pay, salary-related payments, and retiree health insurance benefits due to certain active and retired employees.

Significant assumptions made in estimating the District's severance liability are as follows: (1) annual salary increases of 3.5% annually, and (2) discount rate of 3.25%.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions

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

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

P. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance and is self-insured for some risks as indicated in Note 10. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2018.

Q. Restricted Assets

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

R. Net Position

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

S. Fund Balance

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Balance (Continued)

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

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

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

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

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

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

T. Use of Estimates

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows *Minnesota Statutes* for deposits. *Minnesota Statutes* require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository. As of June 30, 2018, the District's deposits with a bank balance of $472,710 were not exposed to custodial credit risk because the balances were fully insured by FDIC or secured by pledged collateral or letters of credit.

As of June 30, 2018, the book value of the District's deposits is $(1,406,820).

B. Investments

Investment Policy

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

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

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

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

Custodial Credit Risk
This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. GASB 40 requires disclosure of all uninsured investment securities purchased by the District or held as collateral on deposits or investments that are not registered in the name of the Minneapolis Public Schools, and held by the counterparty to the investment transactions. The District's investments held by one broker-dealer were insured by SIPC or other supplemental insurance as of June 30, 2018. However, each investment brokerage firm may have a limit to their supplemental insurance and because of the size of the District's portfolio in relation to the brokerage firm's excess SIPC coverage limits, the portion of the supplemental policy applicable to the District's portfolio is unknown.

Interest Rate Risk
This is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates. The District's investment policy states that investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, taking into account constraints on risk and other criteria requirements. As of June 30, 2018, the market values, duration, and percent allocation of the District's investments were as listed below.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Investment Type	Fair Value	Weighted Average Maturities (in Years)	Percent Allocation	Credit Rating
Pooled				
MSDLAF+ Liquid Class	$ 131,990,163	N/A	30.35%	AAAm
MSDLAF+ Max Class	79,850,129	N/A	18.36%	AAAm
MSDLAF Term Series	17,340,665	N/A	3.99%	N/A
Federal Home Loan Bank (FHLB)	46,320,143	1.46	10.65%	AA+
U.S. Treasury Securities	69,859,865	0.92	16.07%	N/A
Fannie Mae	18,734,148	1.50	4.31%	AA+
Freddie Mac	16,386,846	1.63	3.77%	AA+
Brokered Certificates of Deposit	498,173	0.17	0.11%	N/A
Commercial Paper	53,842,791	0.38	12.38%	A1
Total pooled investments	434,822,923		100.00%	
Non-pooled				
Cash with fiscal agent				
Cash held by trustee	396,262	N/A	1.98%	N/A
U.S. Treasury Securities	19,573,672	6.61	98.02%	N/A
Total cash with fiscal agent	19,969,934		100.00%	
Health insurance				
Cash/Money Market	23,093,179	NA	100.00%	N/A
OPEB Trust Fund				
Mutual Funds	17,209,505	N/A	99.84%	N/A
Cash/Money Market Funds	27,281	N/A	0.16%	N/A
Total OPEB Trust Fund	17,236,786		100.00%	
Total non-pooled investments	60,299,899			
Total investments	$ 495,122,822			

The District has the following recurring fair value measurements as of June 30, 2018:

- Pooled Investments of $69,859,865 are valued using Level 1 inputs
- Pooled Investments of $119,145,024 are valued using Level 2 inputs
- Nonpooled investments with fiscal agent of $19,573,672 are valued using Level 1 inputs
- Nonpooled OPEB investments of $17,236,786 are valued using a matrix pricing model (Level 2 inputs)

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of total deposits and investments:

Deposits (Note 2.A.)	$ (1,406,820)
Investments - pooled (Note 2.B.)	434,822,923
Investments - non-pooled (Note 2.B.)	60,299,899
Total deposits and investments	$ 493,716,002

Deposits and investments are presented in the June 30, 2018, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 454,509,282
Cash with fiscal agent	19,969,934
Statement of Fiduciary Net Position	
Cash and Investments	19,236,786
Total deposits and investments	$ 493,716,002

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 35,446,301	-	$ -	$ 35,446,301
Construction in progress	75,119,861	85,278,033	57,115,958	103,281,936
Total capital assets not being depreciated	110,566,162	85,278,033	57,115,958	138,728,237
Capital assets being depreciated				
Buildings	1,108,454,265	58,902,702	-	1,167,356,967
Machinery and equipment	44,030,163	4,409,297	1,022,974	47,416,486
Total capital assets being depreciated	1,152,484,428	63,311,999	1,022,974	1,214,773,453
Less accumulated depreciation for				
Buildings	583,491,831	30,324,078	-	613,815,909
Machinery and equipment	33,244,723	2,666,563	997,546	34,913,740
Total accumulated depreciation	616,736,554	32,990,641	997,546	648,729,649
Total capital assets being depreciated, net	535,747,874	30,321,358	25,428	566,043,804
Governmental activities, capital assets net	$ 646,314,036	$ 115,599,391	$ 57,141,386	$ 704,772,041

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $32,990,640 for the year ended June 30, 2018, was charged to the following governmental functions:

Administration	$ 105,191
District support services	284,722
Regular instruction	16,537,258
Vocational education instruction	28,266
Special education instruction	275,655
Community education	61,027
Instructional support services	56,892
Pupil support services	1,540,011
Food service	295,814
Sites and buildings	13,805,805
Total depreciation expense, governmental activities	$ 32,990,641

NOTE 4 – LEASES

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

NOTE 5 – LONG-TERM LIABILITIES

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

Minneapolis Public Schools
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Notes to Financial Statements

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Maturity Date	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds, including refunding bonds						
	12/15/09	1.15%	$ 17,200,000	2/15/2025	$ 17,200,000	$ -
	12/28/10	5.13%	19,785,000	12/15/2025	19,785,000	-
	12/28/10	2.00-4.00%	7,750,000	2/1/2021	1,230,000	400,000
	07/26/11	2.00-4.00%	10,525,000	2/1/2020	3,220,000	1,585,000
	12/01/11	3.00-4.00%	16,770,000	2/1/2027	8,255,000	1,060,000
	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	14,815,000	970,000
	12/18/12	2.00-3.00%	18,550,000	2/1/2033	14,410,000	905,000
	12/18/12	3.00-4.00%	9,285,000	2/1/2022	4,570,000	1,085,000
	12/18/12	2.00%	16,530,000	2/1/2022	8,610,000	2,085,000
	12/04/13	3.00-4.00%	20,525,000	2/1/2029	14,445,000	1,690,000
	12/04/13	4.00-5.00%	38,090,000	2/1/2034	33,060,000	1,455,000
	12/23/14	2.00-3.00%	21,840,000	2/1/2030	16,545,000	1,900,000
	12/23/14	3.00-4.00%	45,270,000	2/1/2030	38,230,000	2,595,000
	12/23/14	2.00-5.00%	11,300,000	2/1/2023	7,555,000	1,395,000
	12/29/15	2.34%	21,275,000	2/1/2031	17,740,000	1,910,000
	12/29/15	2.51%	34,755,000	2/1/2031	31,270,000	1,905,000
	12/29/15	1.69%	10,830,000	2/1/2024	8,555,000	1,255,000
	12/22/16	5.00%	41,905,000	2/1/2037	40,190,000	2,340,000
	12/22/16	5.00%	51,910,000	2/1/2035	50,615,000	1,960,000
	12/06/17	4.00-5.00%	28,895,000	2/1/2033	28,895,000	2,370,000
	12/06/17	4.00-5.00%	51,565,000	2/1/2033	51,565,000	2,320,000
			468,470,000		435,020,000	31,185,000
Certificates of participation						
	12/28/10	6.50%	12,990,000	4/1/2036	12,990,000	-
	12/28/10	1.40-6.5%	28,235,000	4/1/2030	19,695,000	1,345,000
	07/26/11	2.00-5.00%	31,255,000	2/1/2020	5,660,000	2,760,000
	12/01/11	2.00-3.20%	19,705,000	2/1/2023	9,735,000	1,830,000
	12/04/13	5.00%	41,125,000	2/1/2021	13,255,000	8,005,000
	12/23/14	4.00-5.00%	125,570,000	2/1/2030	108,560,000	6,830,000
	12/29/15	2.67%	44,475,000	2/1/2031	39,725,000	2,545,000
	12/22/16	5.00%	22,025,000	2/1/2032	21,705,000	1,105,000
	12/06/17	4.00-5.00%	38,565,000	2/1/2033	38,565,000	1,585,000
			363,945,000		269,890,000	26,005,000
Bond premium					65,997,346	-
Self insurance liability and compensated absences					51,801,255	6,212,177
Total long-term liabilities					$ 822,708,601	$ 63,402,177

Minneapolis Public Schools
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Notes to Financial Statements

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Year Ending	Certificates of Participation Payable		G.O. Bonds	
June 30,	Principal	Interest	Principal	Interest
2019	$ 26,005,000	$ 12,727,627	$ 31,185,000	$ 18,023,615
2020	21,625,000	11,250,403	32,465,000	16,203,693
2021	19,530,000	10,254,505	31,525,000	14,857,093
2022	17,565,000	9,363,880	31,120,000	13,572,693
2023	18,335,000	8,574,005	27,645,000	12,283,143
2024-2028	92,985,000	30,439,500	159,560,000	42,519,272
2029-2033	67,000,000	9,181,450	91,255,000	17,165,613
2034-2038	6,845,000	900,575	30,265,000	3,094,938
Total	$ 269,890,000	$ 92,691,945	$ 435,020,000	$ 137,720,060

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 6, 2017, the District issued $28,895,000 of General Obligation School Building Bonds, Series 2017A. The proceeds of this issue were deposited into the construction fund to finance certain capital projects of the District.

On December 6, 2017, the District issued $51,565,000 of General Obligation Long-Term Facilities Maintenance Bonds, Series 2017B. The proceeds of this issue were deposited into the construction fund to finance certain long-term facilities maintenance projects of the District.

On December 6, 2017, the District issued $38,565,000 of Full-Term Certificates of Participation, Series 2017C. The proceeds of this issue were deposited into the construction fund, general fund, and food service special revenue fund to finance certain capital projects of the District.

Self Insurance Liability and Compensated Absences

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

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

	June 30, 2017	Additions	Retirements	June 30, 2018
Governmental activities				
Bonds payable				
General obligation bonds	$ 382,585,000	$ 80,460,000	$ (28,025,000)	$ 435,020,000
Bond premium	54,506,071	17,676,619	(6,185,344)	65,997,346
Certificates of participation payable	255,225,000	38,565,000	(23,900,000)	269,890,000
Self insurance reserves and compensated absences	45,496,387	6,304,867	-	51,801,254
Total governmental activity long-term liabilities	$ 737,812,458	$ 143,006,486	$ (58,110,344)	$ 822,708,600

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

NOTE 6 – FUND BALANCES

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

Minneapolis Public Schools
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Notes to Financial Statements

NOTE 6 – FUND BALANCES (CONTINUED)

Restricted and nonspendable/assigned fund balances at June 30, 2018, are as follows:

	Restricted	Nonspendable/ Assigned
General Fund		
Nonspendable for inventory	$ -	$ 90,987
Restricted for area learning center	808,181	-
Restricted for gifted and talented	299,240	-
Restricted for capital projects	-	-
Assigned for referendum - class size	-	11,903,912
Assigned for alternative compensation	-	-
Assigned for new ESC debt payments	-	3,000,000
Assigned for reemployment insurance	-	466,287
Assigned for site carryover	-	11,315,281
Assigned for contingency	-	2,986,406
Total General Fund	1,107,421	29,762,873
Special Revenue Funds		
Food Service Fund		
Restricted for other purposes	2,290,061	-
Nonspendable for inventory	-	835,232
Community Service Fund		
Restricted for school readiness	1,311,264	-
Restricted for adult basic education	1,263,834	-
Restricted for community education programs	5,212,717	-
Restricted for early childhood and family	879,186	
Restricted for other purposes	309,167	-
Total special revenue funds	11,266,229	835,232
Capital Projects - Building Construction Fund		
Restricted for long-term facilities maintenance	110,824,639	-
Restricted for building construction	115,047,402	-
Total Building Construction Fund	225,872,041	-
Debt Service Fund		
Restricted for QSCB/QZAB	19,969,934	-
Restricted for other purposes	5,273,881	-
Total Debt Service Fund	25,243,815	-
Post Employment Benefits Debt Service Fund		
Restricted for other purposes	55,758	-
Total all funds	$ 263,545,264	$ 30,598,105

NOTE 6 – FUND BALANCES (CONTINUED)

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

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

Restricted for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan. This balance as of June 30, 2018 is a deficit (negative) $241,928, which is presented within unassigned fund balance in the General Fund for the purposes of reporting in accordance with generally accepted accounting principles.

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

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

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

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

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

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

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

NOTE 6 – FUND BALANCES (CONTINUED)

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association

The District participates in various pension plans, total pension expense for the year ended June 30, 2018, was $321,603,602. The components of pension expense are noted in the following plan summaries.

A. Plan Description

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

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

B. Benefits Provided

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

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier I Benefits

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

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.

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2016, June 30, 2017, and June 30, 2018, were:

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

In an agreement related to the merger of the Minneapolis Teachers Retirement Association, the District has agreed to pay an additional 3.64% for a total employer contribution of 11.14%.

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 367,791
Deduct Employer contributions not related to future contribution efforts	810
Deduct TRA's contributions not included in allocation	(456)
Total employer contributions	368,145
Total non-employer contributions	35,588
Total contributions reported in schedule of employer and non-employer pension allocations	$ 403,733

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2017
Experience study	June 5, 2015 Novemeber 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	5.12%, from the single equivalent interest rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	2.00%
Mortality Assumption	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of set rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Domestic stocks	39 %	5.10 %
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Unallocated cash	2	0.00
Total	100 %	

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

Changes in actuarial assumptions since the 2016 valuation:

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

E. Discount Rate

The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.5%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

F. Net Pension Liability

On June 30, 2018, the District reported a liability of $1,554,406,494 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 $111,247,189 for a total liability allocated to the District of $1,665,653,683. The net pension liability was measured as of June 30, 2017, 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. The District's proportionate share was 7.7869% at the end of the measurement period and 8.5993% for the beginning of the year. An additional 0.5573% was allocated at June 30, 2017 under the direct aid payment agreement.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

District's proportionate share of net pension liability	$ 1,665,653,683
State's proportionate share of the net pension liability associated with the District	150,258,878

For the year ended June 30, 2018, the District recognized pension expense of $287,605,236. It recognized $2,881,616 as an increase to this pension expense for the support provided by direct aid.

On June 30, 2018, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 12,990,038	$ 11,700,907
Net difference between projected and actual earnings on plan investments	-	6,735,420
Changes of assumptions	993,253,810	233,331,785
Changes in proportion	43,635,966	175,752,496
Contributions to TRA subsequent to the measurement date	31,989,806	-
Total	$ 1,081,869,620	$ 427,520,608

$31,989,806 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, 2019.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

2019	$ 170,025,902
2020	200,555,651
2021	184,809,127
2022	149,032,693
2023	(82,064,167)
Total	$ 622,359,206

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.12% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower and 1 percent higher than the current rate.

	District proportionate share of NPL		
	1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
Standard share	$ 2,051,517,035	$ 1,554,406,494	$ 1,135,281,827
Direct aid share	146,824,854	111,247,189	81,250,890

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

H. Pension Plan Fiduciary Net Position

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

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

Public Employees' Retirement Association

A. Plan Description

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

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

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

B. Benefits Provided

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

General Employees Plan Benefits

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

Benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

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

Public Employees' Retirement Association (Continued)

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2018. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The District's contributions to the General Employees Fund for the year ended June 30, 2018, were $13,174,768. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of $180,831,314 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $2,273,787. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 2.8326%, which was a decrease of 0.5404% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $33,712,335 for its proportionate share of General Employees Plan's pension expense. Included in this amount, the District recognized $65,669 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)
At June 30, 2018, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 5,959,649	$ 14,010,004
Changes in actuarial assumptions	35,749,415	18,128,357
Difference between projected and actual investments earnings	-	590,380
Changes in proportion and differences between contributions made and District's proportion share of contributions	18,625,584	37,588,164
District's contributions to PERA subsequent to the measurement date	13,174,768	-
Total	$ 73,509,416	$ 70,316,905

$13,174,768 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2019	$ 8,875,754
2020	1,626,993
2021	(12,809,054)
2022	(7,675,950)
2023	-
Total	$ (9,982,257)

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

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

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39%	5.10%
International stocks	19%	5.30
Bonds	20%	0.75
Alternative assets	20%	5.90
Cash	2%	0.00
Total	100%	

F. Discount Rates

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 280,482,806	$ 180,831,314	$ 99,248,469

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

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

B. Benefits Provided

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

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

C. Members

Inactive employees or beneficiaries currently receiving benefits	76
Active employees	6,408
Total	6,484

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Health Partners. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2018, the District contributed $3,376,822 to the plan.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Investment rate of return	4.50%, net of investment expense
Salary Scale	3.50%
Inflation	2.50%
Healthcare cost trend increases	9.0% initially, decreasing to 4.5% over ten years
Mortality Assumption	RP-2014 white collar mortality tables with MP-2015 generational improvement scale

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2017 – June 30, 2018.

The discount rate used to measure the total OPEB liability was 3.25% based on the long-term expected rate of return and the municipal bond index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another scale).

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed Income	50 %	0.00 %
Domestic Equity	33	3.50
Internation Equity	17	4.50
Unallocated Cash	0	0.00
Other	0	0.00
Total	100 %	

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The details of the investments and the investment policy are described in Note 2. of the District's financial statements. For the year ended June 30, 2018, the annual money-weighed rate of return on investments, net of investment expense, was 6.72%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

F. Discount Rate

The discount rate used to measure the total OPEB liability was 3.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

F. Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at July 1, 2017	$ 74,764,503	$ 16,218,695	$ 58,545,808
Changes for the year			
Service cost	6,419,803	-	6,419,803
Interest	2,178,073	-	2,178,073
Differences between expected and actual economic experience	(7,083,960)	313,862	(7,397,822)
Employer contributions	-	3,376,822	(3,376,822)
Changes in assumptions	(2,164,523)	-	(2,164,523)
Benefit payments	(1,376,822)	(1,376,822)	-
Projected Earnings on Fiduciary Net Position	-	773,287	(773,287)
Administrative expense	-	(69,058)	69,058
Net changes	(2,027,429)	3,018,091	(5,045,520)
Balances at June 30, 2018	$ 72,737,074	$ 19,236,786	$ 53,500,288

Plan fiduciary net position as a percentage of the total OPEB liability 26.45%

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 3.25% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (2.25%)	Current (3.25%)	1% increase (4.25%)
Net OPEB Liability	$ 60,667,369	$ 53,500,288	$ 46,886,708

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

	1% decrease (8.00%)	Current (9.00%)	1% increase (10.00%)
Net OPEB Liability	$ 44,008,019	$ 53,500,288	$ 64,940,038

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

For the year ended June 30, 2018, the District recognized OPEB expense of $6,920,591. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	$ -	$ 251,090
Differences between expected and actual economic experience	-	6,386,720
Changes of assumptions	-	1,951,479
Total	$ -	$ 8,589,289

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

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

Year Ending June 30,	Total
2019	$ (973,056)
2020	(973,056)
2021	(973,056)
2022	(973,056)
2023	(910,286)
2024+	(3,786,779)
Total	$ (8,589,289)

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 $11,670,393 as disclosed in Note 11 for general liability, auto liability, and worker's compensation claims.

C. Teachers Retirement Association

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

D. Construction Commitments

The District has in process various multi-year construction and repair projects which were not completed in the current fiscal year. As of June 30, 2018, outstanding commitments for these multi-year projects total approximately $36,345,174.

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, 2018 and 2017 was $2,000,000.

Liabilities of $11,095,393 have been recorded in the Self-Insurance Fund for known workers' compensation claims and for claims incurred but not reported as of June 30, 2018. The recorded reserves are actuarially evaluated annually and adjusted accordingly. The discount rate used at June 30, 2018, 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 $575,000 have been established to cover such claims as of June 30, 2018.

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

Claims incurred but not reported or case reserves at June 30, 2016	$	10,577,291
Claims incurred, fiscal year 2017		5,321,990
Claims paid, fiscal year 2017		(4,388,736)
Claims incurred but not reported or case reserves at June 30, 2017		11,510,545
Claims incurred, fiscal year 2018		10,607,643
Claims paid, fiscal year 2018		(10,447,795)
Claims incurred but not reported or case reserves at June 30, 2018	$	11,670,393

The District maintains commercial coverage for property insurance.

NOTE 10 – RISK MANAGEMENT (CONTINUED)

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

The governmental funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2018, is $2,779,093 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred, and the amount of the loss can be reasonably estimated.

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

	Balance, Beginning of Year	Claims, Expense, and Estimates	Claims Payments	Balance, End of Year
2016-2017	$ -	$ 20,764,275	$ (17,215,895)	$ 3,548,380
2017-2018	$ 3,548,380	$ 42,487,627	$ (43,256,914)	$ 2,779,093

NOTE 11 – COMPENSATED ABSENCES

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

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

B. Teachers
Employees who are at least 55 years of age or who are credited with 30 years of service by the MTRFA receive payment for 50% of unused sick leave. All amounts of vested sick pay are accrued as liabilities in the Internal Service Post Retirement Benefits Fund.

NOTE 11 – COMPENSATED ABSENCES (CONTINUED)

C. Principals

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

NOTE 12 – SUBSEQUENT EVENT

Subsequent to year-end, the District approved the issuance of General Obligation School Building Bonds, Series 2018A for $42,120,000 and General Obligation Long-Term Facilities Maintenance Bonds, Series 2018B for $55,070,000.

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2018, the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. This resulted in an adjustment to the beginning net position on the Statement of Activities of $(35,839,375) to add the beginning total OPEB liability.

NOTE 14 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending June 30, 2020.

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REQUIRED SUPPLEMENTARY INFORMATION

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

	June 30, 2017	June 30, 2018
Total OPEB Liability		
Service cost	$ 6,076,552	$ 6,419,803
Interest	3,005,357	2,178,073
Differenced between expected and actual experience	-	(7,083,960)
Changes of assumptions	-	(2,164,523)
Benefit payments	(285,922)	(1,376,822)
Implicit rate subsidies	(1,920,313)	-
Net change in total OPEB liability	6,875,674	(2,027,429)
Beginning of year	67,888,829	74,764,503
End of Year	$ 74,764,503	$ 72,737,074
Plan Fiduciary Net Pension (FNP)		
Employer contributions	$ -	$ 3,376,822
Net investment income	1,272,204	-
Projected earnings on fiduciary net position	-	773,287
Net difference between projected and actual earnings		313,862
Benefit payments	-	(1,376,822)
Administrative expense	-	(69,058)
Net change in plan fiduciary net position	1,272,204	3,018,091
Beginning of year	14,946,492	16,218,695
End of year	$ 16,218,696	$ 19,236,786
Net OPEB liability	$ 58,545,807	$ 53,500,288
Plan FNP as a percentage of the total OPEB liability	21.69%	26.45%
Covered-employee payroll	$ 363,751,046	$ 360,122,986
Net OPEB liability as a percentage of covered-employee payroll	16.10%	14.86%

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

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

	June 30, 2017	June 30, 2018
Actuarially determined contribution	$ 8,990,196	$ 1,251,751
Contributions in relation to the actuarially determined contribution	2,356,085	3,376,822
Contribution deficiency (excess)	$ 6,634,111	$ (2,125,071)
Covered-employee payroll	$ 363,751,046	$ 360,122,986
Contributions as a percentage of covered-employee payroll	0.65%	0.94%

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

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

	June 30, 2017	June 30, 2018
Annual money-weighted rate of return, net of investment expense	8.97%	6.72%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	1.9676%	$ 92,427,990	$ -	$ 92,427,990	$ 103,293,324	89.5%	78.7%
2016	3.5536%	184,165,995	-	184,165,995	110,161,680	167.2%	78.2%
2017	3.3730%	273,870,870	3,577,010	277,447,880	114,079,707	240.1%	78.8%
2018	2.8326%	180,831,314	2,273,787	183,105,101	87,249,667	207.3%	75.9%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionated Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	8.0196%	$ 398,742,430	$ 25,768,509	$ 424,510,939	$ 238,717,909	167.0%	81.5%
2016	8.1323%	503,063,183	57,223,106	560,286,289	257,683,734	195.2%	76.8%
2017	8.5993%	2,188,694,939	192,864,529	2,394,574,710	301,171,984	726.7%	44.9%
2018	7.7869%	1,665,653,683	150,258,878	1,815,912,561	282,186,562	590.3%	51.6%

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

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

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 7,488,766	$ 7,488,766	$ -	$ 103,293,324	7.25%
2015	8,262,126	8,262,126	-	110,161,680	7.50%
2016	8,555,978	8,555,978	-	114,079,707	7.50%
2017	6,543,725	6,543,725	-	87,249,667	7.50%
2018	20,317,168	20,317,168	-	270,895,573	7.50%

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

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

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years*

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 25,399,585	$ 25,399,585	$ -	$ 228,003,456	11.14%
2015	28,705,968	28,705,968	-	257,683,734	11.14%
2016	33,550,559	33,550,559	-	301,171,984	11.14%
2017	31,435,583	31,435,583	-	282,186,562	11.14%
2018	29,739,806	29,739,806	-	266,964,147	11.14%

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

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

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

TRA Retirement Funds

2017 Changes

Changes in Actuarial Assumptions

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes

Changes in Actuarial Assumptions

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

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

TRA Retirement Funds (Continued)

2015 Changes
Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

General Employees Fund

2017 Changes
Changes in Actuarial Assumptions

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

2016 Changes
Changes in Actuarial Assumptions

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

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

2015 Changes
Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

SUPPLEMENTARY INFORMATION

Minneapolis Public Schools
Special School District No. 1
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2018

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 589,836,148	$ 589,836,146	$ 2
Total expenditures		593,617,102	593,617,102	-
Nonspendable:				
460	Nonspendable fund balance	90,987	90,987	-
Restricted/reserved:				
403	Staff Development	-	-	-
405	Deferred Maintenance	-	-	-
406	Health and Safety	(241,928)	(241,928)	-
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	808,181	808,181	-
435	Contracted Alternative Programs	-	-	-
436	State Approved Alternative Program	-	-	-
438	Gifted and Talented	299,240	299,240	-
440	Teacher Development and Evaluation	-	-	-
441	Basic Skills Programs	-	-	-
445	Career Technical Programs	-	-	-
448	Achievement and Integration	-	-	-
449	Safe School Crime	-	-	-
450	Transition for Pre-Kindergarten	-	-	-
451	QZAB and QSCB Payments	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
453	Unfunded Severance and Retirement Levy	-	-	-
467	Long-term Facilities Maintenance	-	-	
472	Medical Assistance	-	-	
Restricted:				
464	Restricted fund balance	-	-	-
Committed:				
418	Committed for separation	-	-	-
461	Committed	-	-	-
Assigned:				
462	Assigned fund balance	29,671,886	29,671,886	-
Unassigned:				
422	Unassigned fund balance (net position)	31,887,043	31,887,042	1
02 Food Services Fund				
Total revenue		$ 21,897,237	$ 21,897,238	$ (1)
Total expenditures		21,646,325	21,646,326	(1)
Nonspendable:				
460	Nonspendable fund balance	835,232	835,232	-
Restricted/reserved:				
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	2,290,061	2,290,061	-
Unassigned:				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total revenue		$ 30,506,573	$ 30,506,573	$ -
Total expenditures		30,234,975	30,234,973	2
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
426	$25 Taconite	-	-	-
431	Community Education	5,212,717	5,212,717	-
432	ECFE	879,186	879,186	-
440	Teacher Development and Evaluation	-	-	-
444	School Readiness	1,311,264	1,311,264	-
447	Adult Basic Education	1,263,834	1,263,834	-
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	309,167	309,167	-
Unassigned:				
463	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ 1,249,177	$ 1,249,177	$ -
Total expenditures		113,141,433	113,141,433	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
407	Capital Projects Levy	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
467	Long-term Facilities Maintenance	110,824,639	110,824,639	-
Restricted:				
464	Restricted fund balance	115,047,402	115,047,403	(1)
Unassigned:				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 76,227,962	$ 76,227,961	$ 1
Total expenditures		76,931,473	76,931,473	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
425	Bond refundings	-	-	-
433	Maximum effort loan aid	-	-	-
451	QZAB Payments	19,969,934	19,969,934	-
Restricted:				
464	Restricted fund balance	5,273,881	5,273,879	2
Unassigned:				
463	Unassigned fund balance	-	-	-
08 TRUST FUND				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Net position	-	-	-
20 Internal Service Fund				
Total revenue		$ 65,290,531	$ 65,290,530	$ 1
Total expenditures		64,795,009	64,795,010	(1)
Unassigned:				
422	Net position	199,191	199,190	1
25 OPEB Revocable Trust				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Net position	-	-	-
45 OPEB Irrevocable Trust				
Total revenue		$ 3,018,090	$ 3,018,089	$ 1
Total expenditures		-	-	-
Unassigned:				
422	Net position	19,236,786	19,236,785	1
47 OPEB Debt Service				
Total revenue		$ 2,313,857	$ 2,313,858	$ (1)
Total expenditures		2,258,099	2,258,100	(1)
Nonspendable:				
460	Nonspendable fund balance			
Restricted:		-	-	-
425	Bond refundings			
464	Restricted fund balance	55,758	55,758	-
Unassigned:				
463	Unassigned fund balance	-	-	-