

SPECIAL SCHOOL DISTRICT NO. 6
SOUTH ST. PAUL, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2017

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SPECIAL SCHOOL DISTRICT NO. 6

Table of Contents

	Page
INTRODUCTORY SECTION	
SCHOOL BOARD AND ADMINISTRATION	1
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	2–4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5–16
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements	
Governmental Funds	
Balance Sheet	19–20
Reconciliation of the Balance Sheet to the Statement of Net Position	21
Statement of Revenue, Expenditures, and Changes in Fund Balances	22–23
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	24
Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	25
Internal Service Funds	
Statement of Net Position	26
Statement of Revenues, Expenses, and Changes in Net Position	27
Statement of Cash Flows	28
Fiduciary Fund	
Statement of Fiduciary Net Position	29
Statement of Changes in Fiduciary Net Position	29
Notes to Basic Financial Statements	30–55
REQUIRED SUPPLEMENTARY INFORMATION	
Public Employees Retirement Association Pension Benefits Plan	
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability	56
Schedule of District Contributions	56
Teachers Retirement Association Pension Benefits Plan	
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability	57
Schedule of District Contributions	57
Other Post-Employment Benefits Plan	
Schedule of Funding Progress	58
SUPPLEMENTAL INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet	59
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	60

SPECIAL SCHOOL DISTRICT NO. 6

Table of Contents (continued)

	Page
SUPPLEMENTAL INFORMATION (CONTINUED)	
General Fund	
Comparative Balance Sheet	61
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	62–64
Food Service Special Revenue Fund	
Comparative Balance Sheet	65
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	66
Community Service Special Revenue Fund	
Comparative Balance Sheet	67
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	68
Capital Projects – Building Construction Fund	
Comparative Balance Sheet	69
Comparative Schedule of Revenue, Expenditures, and Changes in Fund Balances	70
Debt Service Fund	
Balance Sheet by Account	71
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account – Budget and Actual	72–73
Internal Service Funds	
Combining Statement of Net Position	74
Combining Statement of Revenue, Expenses, and Changes in Net Position	75
Combining Statement of Cash Flows	76
OTHER DISTRICT INFORMATION (UNAUDITED)	
Government-Wide Revenue by Type	77
Government-Wide Expenses by Function	78–79
General Fund Revenue by Source	80
General Fund Expenditures by Function	81–82
School Tax Levies and Tax Rates by Fund	83
Tax Capacities and Market Values	84
Property Tax Levies and Receivables	85–86
Students Served	87
SINGLE AUDIT AND OTHER REQUIRED REPORTS	
Schedule of Expenditures of Federal Awards	88
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	89–90
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	91–92
Independent Auditor’s Report on Minnesota Legal Compliance	93
Schedule of Findings and Questioned Costs	94–95
Uniform Financial Accounting and Reporting Standards Compliance Table	96–97

INTRODUCTORY SECTION

SPECIAL SCHOOL DISTRICT NO. 6

School Board and Administration
Year Ended June 30, 2017

SCHOOL BOARD

	<u>Board Position</u>
Chris Walker	Chair
Kristie Hood	Vice Chair
Wendy Felton	Clerk
Amy Williams	Treasurer
Patricia Bjorklund	Inspector
Nikki Laliberte	Inspector
Jeff McClellan	Inspector

ADMINISTRATION

David Webb	Superintendent of Schools
Aaron Bushberger	Finance Director
Lynne Welsh	Assistant Business Manager

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Special School District No. 6
South St. Paul, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Special School District No. 6 (the District) as of and for the year ended June 30, 2017, and the related notes to the 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 financial statements.

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

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (RSI), 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 the Governmental Accounting Standards Board, 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 RSI 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 introductory section, supplemental information, and other district information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

The supplemental information, the Schedule of Expenditures of Federal Awards, and the UFARS Compliance Table are the responsibility of management and were derived from and relate 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and other district information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

(continued)

Prior Year Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated October 12, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 13, 2017

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SPECIAL SCHOOL DISTRICT NO. 6

Management's Discussion and Analysis Year Ended June 30, 2017

This section of Special School District No. 6's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2017 by \$22,226,820 (net position deficit). The District's total net position decreased by \$10,584,398 during the fiscal year ended June 30, 2017.
- Government-wide revenues totaled \$52,115,353 and were \$10,584,398 less than expenses of \$62,699,751.
- The General Fund's total fund balance (under the governmental fund presentation) decreased \$80,392 from the prior year, compared to a \$1,455,470 decrease planned in the budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;
- Management's discussion and analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Supplemental information consisting of combining and individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (Statement of Net Position and Statement of Activities) 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, deferred outflows of resources, liabilities, and deferred inflows of resources, except for the fiduciary funds. 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 financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of additional nonfinancial 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 all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or major funds, rather than the District as a whole. Funds (Food Service Special Revenue and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called nonmajor funds. Detailed financial information for nonmajor funds can be found in the supplemental information section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following kinds of funds:

Governmental Funds – 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 fund financial statements provide a detailed *short-term* view that helps to determine whether there are more or less 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 financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

Proprietary Funds – The District maintains one type of proprietary fund. The internal service funds are used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses its internal service fund to account for the self-insurance activities of the district employees' dental claims and its other post-employment benefits (OPEB) liabilities. These services have been included within governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to other organizations. 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

Table 1 is a summarized view of the District's Statement of Net Position:

Table 1 Summary Statement of Net Position as of June 30, 2017 and 2016		
	2017	2016
Assets		
Current and other assets	\$ 28,213,371	\$ 28,524,485
Capital assets, net of depreciation	40,610,889	40,981,064
Total assets	<u>\$ 68,824,260</u>	<u>\$ 69,505,549</u>
Deferred outflows of resources		
Pension plan deferments	<u>\$ 59,631,350</u>	<u>\$ 5,704,850</u>
Liabilities		
Current and other liabilities	\$ 5,562,286	\$ 6,135,864
Long-term liabilities, including due within one year	135,764,108	69,653,989
Total liabilities	<u>\$ 141,326,394</u>	<u>\$ 75,789,853</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	\$ 8,295,744	\$ 8,339,639
Pension plan deferments	1,060,292	2,723,329
Total deferred inflows of resources	<u>\$ 9,356,036</u>	<u>\$ 11,062,968</u>
Net position		
Net investment in capital assets	\$ 7,706,078	\$ 6,927,114
Restricted	3,013,784	2,368,347
Unrestricted	(32,946,682)	(20,937,883)
Total net position	<u>\$ (22,226,820)</u>	<u>\$ (11,642,422)</u>

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. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts. Another major factor in determining net position as compared to fund balances are the liabilities for long-term severance, pension, and OPEB, which impacts the unrestricted portion of net position.

The District's increase in net investment in capital assets is due mostly to the District repaying debt at a faster rate than the assets are being depreciated. The District's increase in net position restricted for capital asset acquisition, community service, and other state funding restrictions contributed to the growth in the restricted portion of net position. The decrease in unrestricted net position was primarily due to the increase in the District's share of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) pension plans. This also contributed to the changes in deferred outflows of resources, long-term liabilities, and deferred inflows of resources.

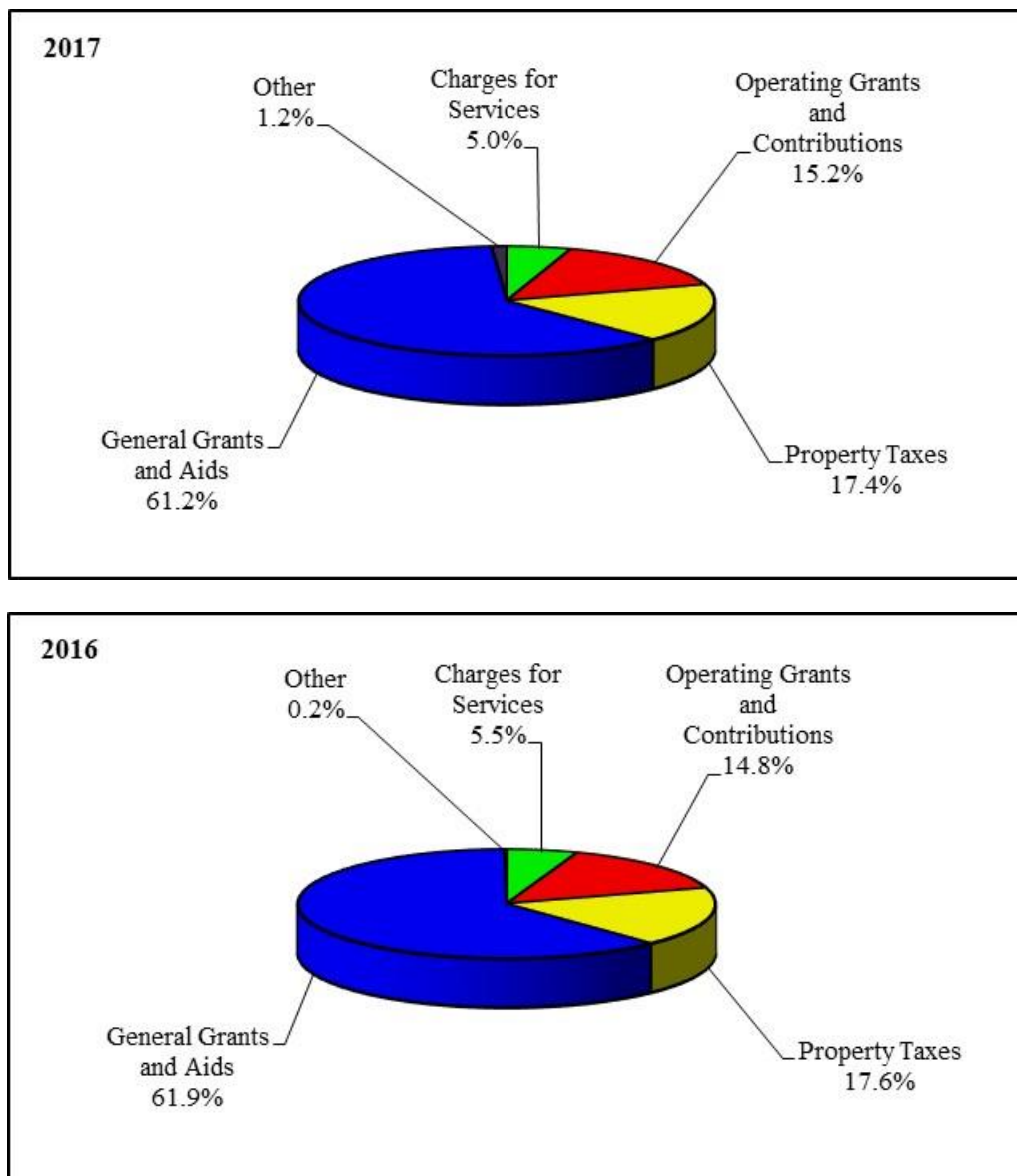
Table 2 presents a summarized version of the District's Statement of Activities:

Table 2 Summary Statement of Activities for the Years Ended June 30, 2017 and 2016		
	2017	2016
Revenues		
Program revenues		
Charges for services	\$ 2,593,395	\$ 2,679,050
Operating grants and contributions	7,945,568	7,276,738
General revenues		
Property taxes	9,068,563	8,644,541
General grants and aids	31,866,738	30,313,012
Other	641,089	120,499
Total revenues	<u>52,115,353</u>	<u>49,033,840</u>
Expenses		
Administration	1,493,074	1,153,014
District support services	1,788,939	1,612,075
Elementary and secondary regular instruction	28,839,252	20,230,015
Vocational education instruction	251,888	150,444
Special education instruction	10,463,569	7,934,604
Instructional support services	4,493,422	3,743,950
Pupil support services	3,007,484	2,624,337
Sites and buildings	4,803,238	5,120,866
Fiscal and other fixed cost programs	155,560	145,114
Food service	2,081,770	1,868,409
Community service	2,759,987	2,278,869
Depreciation not allocated to other functions	1,342,250	1,349,560
Interest and fiscal charges on debt	1,219,318	1,277,194
Total expenses	<u>62,699,751</u>	<u>49,488,451</u>
Change in net position	(10,584,398)	(454,611)
Net position – beginning	<u>(11,642,422)</u>	<u>(11,187,811)</u>
Net position – ending	<u>\$ (22,226,820)</u>	<u>\$ (11,642,422)</u>

This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. Revenues increased with funding improvements in general and special education funding formulas. The significant increase in expenses reflects natural inflationary increases along with the change in the PERA and the TRA multi-employer defined benefit pension plans mentioned earlier.

Figure A shows further analysis of these revenue sources.

Figure A – Sources of Revenues for Fiscal Years 2017 and 2016

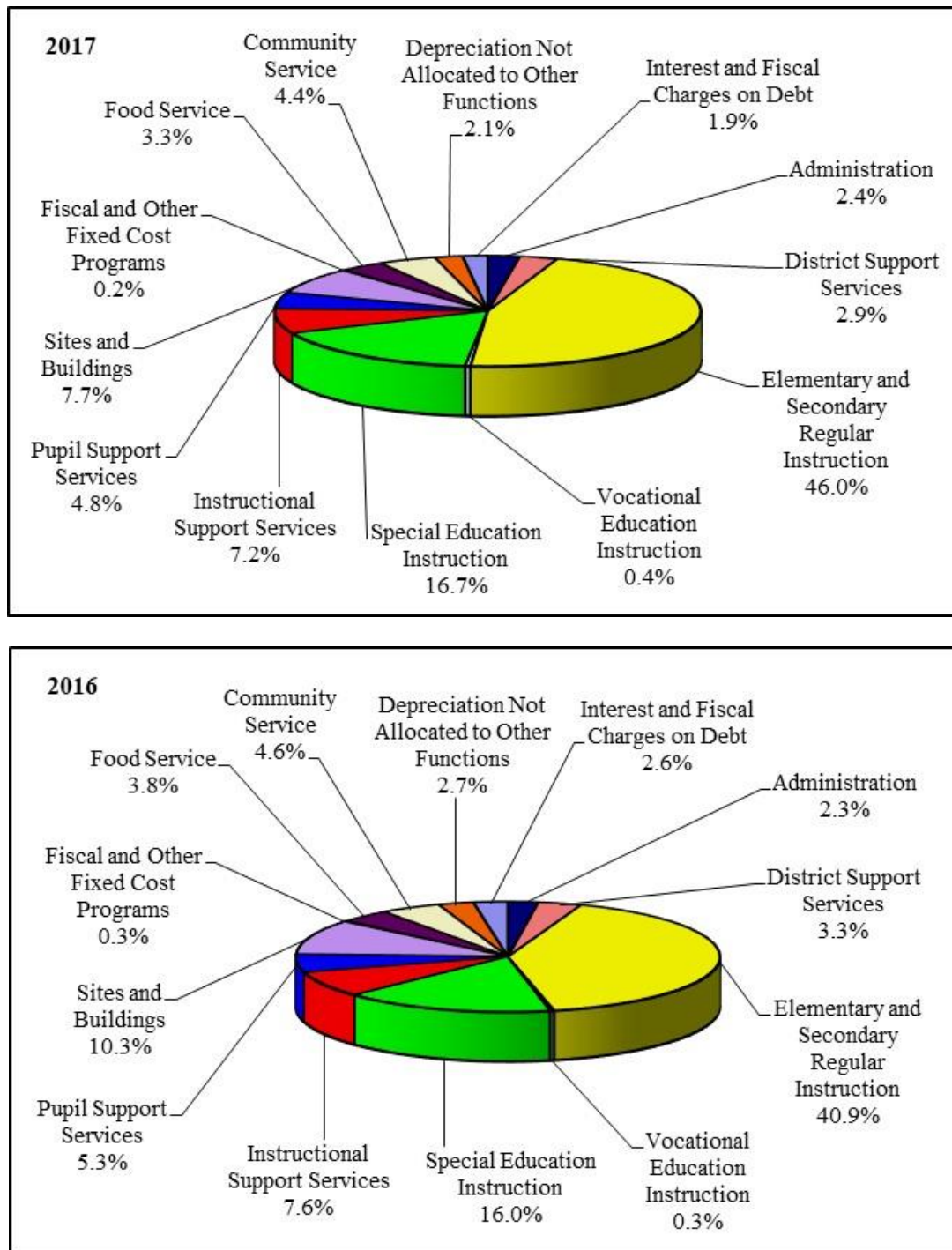


The largest share of the District's revenue is received from the state, including the general education aid formula and most of the operating grants.

Property taxes are generally the next largest source of funding. The level of revenue property tax sources provide is not only dependent on district taxpayers by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

Figure B shows further analysis of these expense functions.

Figure B – Expenses for Fiscal Years 2017 and 2016



The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances of each of the District's governmental funds:

Table 3 Governmental Fund Balances as of June 30, 2017 and 2016			
	2017	2016	Increase (Decrease)
Major funds			
General	\$ 8,292,309	\$ 8,372,701	\$ (80,392)
Capital Projects – Building Construction	–	162,237	(162,237)
Debt Service	506,850	436,580	70,270
Nonmajor funds			
Food Service Special Revenue	913,368	922,684	(9,316)
Community Service Special Revenue	429,368	299,490	129,878
Total governmental funds	<u>\$ 10,141,895</u>	<u>\$ 10,193,692</u>	<u>\$ (51,797)</u>

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's School Board.

At June 30, 2017, the District's governmental funds reported combined fund balances of \$10,141,895, a decrease of \$51,797 in comparison with the prior year. Approximately 37.2 percent of this amount (\$3,768,893) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$592,921), 2) restricted for particular purposes (\$3,392,233), or 3) assigned for particular purposes (\$2,387,848).

ANALYSIS OF THE GENERAL FUND

Table 4 summarizes the amendments to the General Fund budget:

Table 4 General Fund Budget				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenues	<u>\$ 41,492,489</u>	<u>\$ 41,603,650</u>	<u>\$ 111,161</u>	<u>0.3%</u>
Expenditures	<u>\$ 42,497,144</u>	<u>\$ 43,059,120</u>	<u>\$ 561,976</u>	<u>1.3%</u>

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District amended the budget for known significant changes in circumstances such as: updated enrollment estimates, legislative changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, insurance premium changes, special education tuition changes, or for new debt issued.

Table 5 summarizes the operating results of the General Fund:

Table 5 General Fund Operating Results					
	<u>2017 Actual</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenue	\$ 42,907,207	\$ 1,303,557	3.1%	\$ 1,481,747	3.6%
Expenditures	<u>42,990,817</u>	<u>(68,303)</u>	(0.2%)	<u>1,110,249</u>	2.7%
Excess (deficiency) of revenue over expenditures	(83,610)	1,371,860		371,498	
Net other financing sources (uses)	<u>3,218</u>	<u>3,218</u>		<u>123,282</u>	
Net change in fund balances	<u>\$ (80,392)</u>	<u>\$ 1,375,078</u>		<u>\$ 494,780</u>	

The fund balance of the General Fund decreased \$80,392, compared to a planned spend down of \$1,455,470 approved in the final budget.

General Fund revenues were over budget primarily in state and other local sources. Conservative budgeting of student counts and special education funding contributed to the variance in state sources. Other local sources were over budget due to conservative budgeting for fees and contributions. The revenue growth over the prior year was due to the District serving more students in the current year, contributing to an increase in general education aid formula revenue recognized. Funding formula improvements on general education aid and special education aid also contributed to the increase in total revenues.

General Fund expenditures were within 0.2 percent of budget, with the variance spread across several programs and object categories, with the largest variances in sites and buildings and special education instruction. Similar to revenues, expenditures also increased from the prior year. A majority of the increase occurred in salaries and benefits with the District educating more students, along with scheduled contract improvements. Increases in purchased services also contributed to the increase over prior year spending.

COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS

Capital Projects – Building Construction Fund

During fiscal 2017, fund balance decreased by \$162,237 with the District spending the remaining bond proceeds, which were used for a variety of district-wide facility improvements.

Debt Service Fund

The Debt Service Fund revenues exceeded expenditures by \$70,270 in the current year. The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. The remaining fund balance of \$506,850 at June 30, 2017 is available for meeting future debt service obligations.

Other Governmental Funds

The Food Service Special Revenue Fund ended the year with expenditures exceeding revenues, decreasing equity by \$9,316, compared to a planned fund balance reduction of \$116,058.

The Community Service Special Revenue Fund ended the year with revenues exceeding expenditures, increasing equity by \$129,878, compared to a projected increase of \$98,698.

Internal Service Funds

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost reimbursement basis. The District currently maintains an internal service fund to account for the District's self-insured dental plan and an internal service fund to account for the District's OPEB obligations.

The combined total net position balance for the internal service funds as of June 30, 2017 was \$847,342, which represents \$811,365 in resources restricted for OPEB liabilities and \$32,977 available for the District's self-insured dental plan.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2017 and 2016:

Table 6 Capital Assets			
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Land	\$ 1,590,642	\$ 1,590,642	\$ —
Construction in progress	474,368	—	474,368
Buildings	50,429,167	50,156,502	272,665
Building improvements	6,343,911	6,280,544	63,367
Furniture and equipment	3,741,641	3,579,966	161,675
Less accumulated depreciation	<u>(21,968,840)</u>	<u>(20,626,590)</u>	<u>(1,342,250)</u>
Total	<u>\$ 40,610,889</u>	<u>\$ 40,981,064</u>	<u>\$ (370,175)</u>
Depreciation expense	<u>\$ 1,342,250</u>	<u>\$ 1,349,560</u>	<u>\$ (7,310)</u>

By the end of 2017, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 6).

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2017, consistent with the activity of the capital spending in the General Fund and the Capital Projects – Building Construction Fund discussed on the previous page.

The District defines capital assets as those with an initial, individual cost of \$3,000 or more, which benefit more than one fiscal year.

Additional details about capital assets can be found in the notes to basic financial statements.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities with changes from the prior year:

Table 7 Outstanding Long-Term Liabilities			
	2017	2016	Change
General obligation bonds payable	\$ 34,870,000	\$ 36,680,000	\$ (1,810,000)
Unamortized premium/discount	576,411	648,281	(71,870)
Capital leases payable	—	62,966	(62,966)
Net pension liability	96,258,602	28,641,263	67,617,339
Severance benefits payable	93,821	85,022	8,799
Compensated absences payable	205,242	174,581	30,661
Net OPEB obligation	3,760,032	3,361,876	398,156
Total	<u>\$ 135,764,108</u>	<u>\$ 69,653,989</u>	<u>\$ 66,110,119</u>

The decreases in bonds and capital lease obligations in the table above are primarily due to the planned repayment schedules reflecting principal payments during fiscal year 2017.

The differences in the net pension liability reflects the change in the District's proportionate share of the state-wide pension obligations for the PERA and the TRA.

The state limits the amount of general obligation debt the District can issue to 15 percent of the market value of all taxable property within the District's corporate limits (see Table 8):

Table 8 Limitations on Debt	
District's market value	\$ 1,394,111,550
Limit rate	<u>15.0%</u>
Legal debt limit	<u>\$ 209,116,733</u>

Additional details of the District's long-term debt activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The Legislature has added \$121, or 2 percent, per pupil to the basic general education funding formula for fiscal year 2018 and an additional \$124, or 2 percent, per pupil to the formula for fiscal year 2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Services Department, Special School District No. 6, 104 – 5th Avenue South, South St. Paul, Minnesota 55075.

BASIC FINANCIAL STATEMENTS

SPECIAL SCHOOL DISTRICT NO. 6

Statement of Net Position
as of June 30, 2017
(With Partial Comparative Information as of June 30, 2016)

	Governmental Activities	
	2017	2016
Assets		
Cash and temporary investments	\$ 13,779,024	\$ 13,901,739
Receivables		
Current taxes	5,393,660	5,274,419
Delinquent taxes	168,258	228,426
Accounts and interest	28,848	39,232
Due from other governmental units	3,679,263	4,190,401
Inventory	93,432	96,776
Prepaid items	499,489	587,243
Restricted assets		
Cash and investments for OPEB	4,571,397	4,206,249
Capital assets		
Not depreciated	2,065,010	1,590,642
Depreciated, net of accumulated depreciation	38,545,879	39,390,422
Total capital assets, net of accumulated depreciation	40,610,889	40,981,064
Total assets	68,824,260	69,505,549
Deferred outflows of resources		
Pension plan deferments	59,631,350	5,704,850
Total assets and deferred outflows of resources	\$ 128,455,610	\$ 75,210,399
Liabilities		
Salaries payable	\$ 1,745,249	\$ 1,803,042
Accounts and contracts payable	2,087,409	2,866,248
Accrued interest payable	521,567	543,614
Due to other governmental units	457,443	6,306
Unearned revenue	732,198	916,654
Claims incurred, but not reported	18,420	—
Long-term liabilities		
Due within one year	2,070,242	2,047,547
Due in more than one year	133,693,866	67,606,442
Total long-term liabilities	135,764,108	69,653,989
Total liabilities	141,326,394	75,789,853
Deferred inflows of resources		
Property taxes levied for subsequent year	8,295,744	8,339,639
Pension plan deferments	1,060,292	2,723,329
Total deferred inflows of resources	9,356,036	11,062,968
Net position		
Net investment in capital assets	7,706,078	6,927,114
Restricted for		
Capital asset acquisition	238,557	121,740
Debt service	27,536	—
Food service	913,368	922,684
Community service	435,537	309,448
Other purposes (state funding restrictions)	1,398,786	1,014,475
Unrestricted	(32,946,682)	(20,937,883)
Total net position	(22,226,820)	(11,642,422)
Total liabilities, deferred inflows of resources, and net position	\$ 128,455,610	\$ 75,210,399

SPECIAL SCHOOL DISTRICT NO. 6

Statement of Activities
Year Ended June 30, 2017
(With Partial Comparative Information for the Year Ended June 30, 2016)

Functions/Programs	Expenses	2017		2016	
				Net (Expense)	Net (Expense)
				Revenue and	Revenue and
		Program Revenues		Changes in	Changes in
		Charges for	Operating	Net Position	Net Position
		Services	Grants and	Governmental	Governmental
			Contributions	Activities	Activities
Governmental activities					
Administration	\$ 1,493,074	\$ —	\$ —	\$ (1,493,074)	\$ (1,153,014)
District support services	1,788,939	—	—	(1,788,939)	(1,612,075)
Elementary and secondary regular instruction	28,839,252	475,524	625,505	(27,738,223)	(19,142,990)
Vocational education instruction	251,888	—	—	(251,888)	(150,444)
Special education instruction	10,463,569	243,571	4,968,783	(5,251,215)	(3,377,385)
Instructional support services	4,493,422	—	—	(4,493,422)	(3,743,950)
Pupil support services	3,007,484	—	97,206	(2,910,278)	(2,409,161)
Sites and buildings	4,803,238	36,475	—	(4,766,763)	(5,079,782)
Fiscal and other fixed cost programs	155,560	—	—	(155,560)	(145,114)
Food service	2,081,770	588,009	1,436,570	(57,191)	98,892
Community service	2,759,987	1,249,816	817,504	(692,667)	(190,886)
Depreciation not allocated to other functions	1,342,250	—	—	(1,342,250)	(1,349,560)
Interest and fiscal charges	1,219,318	—	—	(1,219,318)	(1,277,194)
Total governmental activities	<u>\$ 62,699,751</u>	<u>\$ 2,593,395</u>	<u>\$ 7,945,568</u>	(52,160,788)	(39,532,663)
General revenues					
Taxes					
Property taxes, levied for general purposes				5,408,982	5,082,404
Property taxes, levied for community service				497,315	448,104
Property taxes, levied for debt service				3,162,266	3,114,033
General grants and aids				31,866,738	30,313,012
Other general revenues				188,456	123,125
Investment earnings (loss)				452,633	(2,626)
Total general revenues				<u>41,576,390</u>	<u>39,078,052</u>
Change in net position				(10,584,398)	(454,611)
Net position – beginning				<u>(11,642,422)</u>	<u>(11,187,811)</u>
Net position – ending				<u>\$ (22,226,820)</u>	<u>\$ (11,642,422)</u>

SPECIAL SCHOOL DISTRICT NO. 6

Balance Sheet
Governmental Funds
as of June 30, 2017
(With Partial Comparative Information as of June 30, 2016)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	\$ 10,256,444	\$ —	\$ 1,978,580
Receivables			
Current taxes	3,098,506	—	1,982,827
Delinquent taxes	103,949	—	56,049
Accounts and interest	23,918	—	—
Due from other governmental units	3,329,374	—	—
Inventory	—	—	—
Prepaid items	498,225	—	—
	<u>\$ 17,310,416</u>	<u>\$ —</u>	<u>\$ 4,017,456</u>
Liabilities			
Salaries payable	\$ 1,658,204	\$ —	\$ —
Accounts and contracts payable	2,018,257	—	—
Due to other governmental units	260,449	—	—
Unearned revenue	465,093	—	221,000
Total liabilities	4,402,003	—	221,000
Deferred inflows of resources			
Unavailable revenue – delinquent taxes	79,217	—	42,253
Property taxes levied for subsequent year	4,536,887	—	3,247,353
Total deferred inflows of resources	4,616,104	—	3,289,606
Fund balances			
Nonspendable	498,225	—	—
Restricted	1,637,343	—	506,850
Assigned	2,387,848	—	—
Unassigned	3,768,893	—	—
Total fund balances	8,292,309	—	506,850
	<u>\$ 17,310,416</u>	<u>\$ —</u>	<u>\$ 4,017,456</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 17,310,416</u>	<u>\$ —</u>	<u>\$ 4,017,456</u>

Nonmajor Funds	Total Governmental Funds	
	2017	2016
\$ 1,464,355	\$ 13,699,379	\$ 13,901,739
312,327	5,393,660	5,274,419
8,260	168,258	228,426
2,095	26,013	39,232
349,889	3,679,263	4,190,401
93,432	93,432	96,776
1,264	499,489	587,243
<u>\$ 2,231,622</u>	<u>\$ 23,559,494</u>	<u>\$ 24,318,236</u>
\$ 87,045	\$ 1,745,249	\$ 1,803,042
69,152	2,087,409	2,866,248
196,994	457,443	6,306
18,022	704,115	916,654
<u>371,213</u>	<u>4,994,216</u>	<u>5,592,250</u>
6,169	127,639	192,655
511,504	8,295,744	8,339,639
<u>517,673</u>	<u>8,423,383</u>	<u>8,532,294</u>
94,696	592,921	684,019
1,248,040	3,392,233	2,859,551
—	2,387,848	2,601,398
—	3,768,893	4,048,724
<u>1,342,736</u>	<u>10,141,895</u>	<u>10,193,692</u>
<u>\$ 2,231,622</u>	<u>\$ 23,559,494</u>	<u>\$ 24,318,236</u>

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SPECIAL SCHOOL DISTRICT NO. 6

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2017

(With Partial Comparative Information as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
Total fund balances – governmental funds	\$ 10,141,895	\$ 10,193,692
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	62,579,729	61,607,654
Accumulated depreciation	(21,968,840)	(20,626,590)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(34,870,000)	(36,680,000)
Unamortized premium/discount	(576,411)	(648,281)
Capital leases payable	–	(62,966)
Net pension liability	(96,258,602)	(28,641,263)
Severance benefits payable	(93,821)	(85,022)
Compensated absences payable	(205,242)	(174,581)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(521,567)	(543,614)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	847,342	844,373
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plan deferments	59,631,350	5,704,850
Deferred inflows – pension plan deferments	(1,060,292)	(2,723,329)
Deferred inflows – unavailable revenue – delinquent taxes	<u>127,639</u>	<u>192,655</u>
Total net position – governmental activities	<u>\$ (22,226,820)</u>	<u>\$ (11,642,422)</u>

SPECIAL SCHOOL DISTRICT NO. 6

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017
(With Partial Comparative Information for the Year Ended June 30, 2016)

	<u>General Fund</u>	<u>Capital Projects – Building Construction Fund</u>	<u>Debt Service Fund</u>
Revenue			
Local sources			
Property taxes	\$ 5,452,392	\$ –	\$ 3,181,384
Investment earnings	66,287	591	9,939
Other	940,808	–	–
State sources	35,121,981	–	–
Federal sources	1,325,739	–	–
Total revenue	<u>42,907,207</u>	<u>591</u>	<u>3,191,323</u>
Expenditures			
Current			
Administration	1,072,918	–	–
District support services	1,704,901	–	–
Elementary and secondary regular instruction	20,410,135	–	–
Vocational education instruction	187,501	–	–
Special education instruction	7,751,666	–	–
Instructional support services	3,492,275	–	–
Pupil support services	2,689,663	–	–
Sites and buildings	5,461,050	–	–
Fiscal and other fixed cost programs	155,560	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	162,828	–
Debt service			
Principal	62,966	–	1,810,000
Interest and fiscal charges	2,182	–	1,311,053
Total expenditures	<u>42,990,817</u>	<u>162,828</u>	<u>3,121,053</u>
Excess (deficiency) of revenue over expenditures	(83,610)	(162,237)	70,270
Other financing sources (uses)			
Sale of capital assets	3,218	–	–
Transfers in	–	–	–
Transfers (out)	–	–	–
Total other financing sources (uses)	<u>3,218</u>	<u>–</u>	<u>–</u>
Net change in fund balances	(80,392)	(162,237)	70,270
Fund balances			
Beginning of year	<u>8,372,701</u>	<u>162,237</u>	<u>436,580</u>
End of year	<u>\$ 8,292,309</u>	<u>\$ –</u>	<u>\$ 506,850</u>

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds	
	2017	2016
\$ 499,803	\$ 9,133,579	\$ 8,606,155
10,668	87,485	54,145
1,837,825	2,778,633	2,788,602
933,950	36,055,931	35,080,558
1,320,124	2,645,863	2,509,192
<u>4,602,370</u>	<u>50,701,491</u>	<u>49,038,652</u>
—	1,072,918	1,079,698
—	1,704,901	1,593,886
—	20,410,135	19,997,954
—	187,501	147,844
—	7,751,666	7,832,449
—	3,492,275	3,707,592
—	2,689,663	2,609,229
—	5,461,050	4,649,362
—	155,560	145,114
2,031,111	2,031,111	1,860,731
2,431,938	2,431,938	2,259,863
18,759	181,587	5,231,768
—	1,872,966	1,874,425
—	1,313,235	1,369,065
<u>4,481,808</u>	<u>50,756,506</u>	<u>54,358,980</u>
120,562	(55,015)	(5,320,328)
—	3,218	24,936
—	—	145,000
—	—	(145,000)
<u>—</u>	<u>3,218</u>	<u>24,936</u>
120,562	(51,797)	(5,295,392)
<u>1,222,174</u>	<u>10,193,692</u>	<u>15,489,084</u>
<u>\$ 1,342,736</u>	<u>\$ 10,141,895</u>	<u>\$ 10,193,692</u>

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SPECIAL SCHOOL DISTRICT NO. 6

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2017

(With Partial Comparative Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Total net change in fund balances – governmental funds	\$ (51,797)	\$ (5,295,392)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	972,075	4,788,742
Depreciation expense	(1,342,250)	(1,349,560)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.		
	–	(11,363)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	1,810,000	1,770,000
Energy loans payable	–	43,567
Capital leases payable	62,966	60,858
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.		
	71,870	71,870
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability	(67,617,339)	(5,843,455)
Severance benefits payable	(8,799)	(12,356)
Compensated absences payable	(30,661)	(48,794)
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.		
	22,047	20,001
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities.		
	2,969	(289,900)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plan deferments	53,926,500	1,388,511
Deferred inflows – pension plan deferments	1,663,037	4,214,274
Deferred inflows – unavailable revenue – delinquent taxes	<u>(65,016)</u>	<u>38,386</u>
Change in net position – governmental activities	<u>\$ (10,584,398)</u>	<u>\$ (454,611)</u>

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SPECIAL SCHOOL DISTRICT NO. 6

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2017

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	\$ 5,358,323	\$ 5,360,193	\$ 5,452,392	\$ 92,199
Investment earnings	10,000	10,000	66,287	56,287
Other	657,832	672,832	940,808	267,976
State sources	34,208,470	34,302,761	35,121,981	819,220
Federal sources	1,257,864	1,257,864	1,325,739	67,875
Total revenue	<u>41,492,489</u>	<u>41,603,650</u>	<u>42,907,207</u>	<u>1,303,557</u>
Expenditures				
Current				
Administration	1,086,060	1,102,901	1,072,918	(29,983)
District support services	1,786,470	1,785,850	1,704,901	(80,949)
Elementary and secondary regular instruction	20,587,168	20,398,850	20,410,135	11,285
Vocational education instruction	—	180,814	187,501	6,687
Special education instruction	7,928,686	7,871,349	7,751,666	(119,683)
Instructional support services	3,587,521	3,582,660	3,492,275	(90,385)
Pupil support services	2,569,173	2,575,788	2,689,663	113,875
Sites and buildings	4,816,462	5,335,760	5,461,050	125,290
Fiscal and other fixed cost programs	135,604	160,000	155,560	(4,440)
Debt service				
Principal	—	62,966	62,966	—
Interest and fiscal charges	—	2,182	2,182	—
Total expenditures	<u>42,497,144</u>	<u>43,059,120</u>	<u>42,990,817</u>	<u>(68,303)</u>
Excess (deficiency) of revenue over expenditures	(1,004,655)	(1,455,470)	(83,610)	1,371,860
Other financing sources				
Sale of capital assets	<u>—</u>	<u>—</u>	<u>3,218</u>	<u>3,218</u>
Net change in fund balances	<u><u>\$ (1,004,655)</u></u>	<u><u>\$ (1,455,470)</u></u>	<u>(80,392)</u>	<u><u>\$ 1,375,078</u></u>
Fund balances				
Beginning of year			<u>8,372,701</u>	
End of year			<u><u>\$ 8,292,309</u></u>	

SPECIAL SCHOOL DISTRICT NO. 6

Statement of Net Position
Internal Service Funds
as of June 30, 2017
(With Partial Comparative Information as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and temporary investments	\$ 79,645	\$ —
Receivables		
Accounts and interest	2,835	—
Restricted assets		
Cash and cash equivalents	2,912,311	2,617,276
Investments	1,659,086	1,588,973
Total current assets	<u>4,653,877</u>	<u>4,206,249</u>
Liabilities		
Current liabilities		
Unearned revenue	28,083	—
Claims incurred, but not reported	18,420	—
Total current liabilities	<u>46,503</u>	<u>—</u>
Long-term liabilities		
Net OPEB obligations	<u>3,760,032</u>	<u>3,361,876</u>
Total liabilities	<u>3,806,535</u>	<u>3,361,876</u>
Net position		
Restricted for OPEB	811,365	844,373
Unrestricted	35,977	—
Total net position	<u>\$ 847,342</u>	<u>\$ 844,373</u>

SPECIAL SCHOOL DISTRICT NO. 6

Statement of Revenue, Expenses, and Changes in Net Position
Internal Service Funds
Year Ended June 30, 2017
(With Partial Comparative Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Operating revenue		
Contributions from governmental funds	\$ 758,866	\$ 693,632
Operating expenses		
Dental benefit claims	136,414	—
OPEB	<u>984,631</u>	<u>926,761</u>
Total operating expenses	<u>1,121,045</u>	<u>926,761</u>
Operating income (loss)	(362,179)	(233,129)
Nonoperating revenue		
Investment earnings (loss)	<u>365,148</u>	<u>(56,771)</u>
Change in net position	2,969	(289,900)
Net position		
Beginning of year	<u>844,373</u>	<u>1,134,273</u>
End of year	<u>\$ 847,342</u>	<u>\$ 844,373</u>

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SPECIAL SCHOOL DISTRICT NO. 6

Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2017
(With Partial Comparative Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Received from assessments made to other funds	\$ 784,114	\$ 693,632
Payment for dental claims	(117,994)	—
Post-employment benefit payments	(586,475)	(693,632)
Net cash flows from operating activities	<u>79,645</u>	<u>—</u>
Cash flows from investing activities		
Purchase of investments	(188,813)	(211,269)
Sale of investments	118,700	302,601
Interest on investments (loss)	365,148	(56,771)
Net cash flows from investing activities	<u>295,035</u>	<u>34,561</u>
Net change in cash and cash equivalents	374,680	34,561
Cash and cash equivalents		
Beginning of year	<u>2,617,276</u>	<u>2,582,715</u>
End of year	<u>\$ 2,991,956</u>	<u>\$ 2,617,276</u>
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ (362,179)	\$ (233,129)
Adjustments to reconcile operating income (loss) to cash flows from operating activities		
Changes in assets and liabilities		
Accounts and interest receivable	(2,835)	—
Unearned revenue	28,083	—
Claims incurred, but not reported	18,420	—
Net OPEB obligation	398,156	233,129
Net cash flows from operating activities	<u>\$ 79,645</u>	<u>\$ —</u>
Cash and cash equivalents are reported on the Statement of Net Position as follows:		
Cash and temporary investments	\$ 79,645	\$ —
Cash and cash equivalents	<u>2,912,311</u>	<u>2,617,276</u>
Total cash and cash equivalents	<u>\$ 2,991,956</u>	<u>\$ 2,617,276</u>

SPECIAL SCHOOL DISTRICT NO. 6

Statement of Fiduciary Net Position
as of June 30, 2017

	Employee Benefit Trust Fund
Assets	
Cash and temporary investments	<u>\$ 81,732</u>
Net position	
Held in trust for flexible benefits	<u>\$ 81,732</u>

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

	Employee Benefit Trust Fund
Additions	
Contributions	\$ 235,183
Deductions	
Flex benefit costs	<u>214,032</u>
Change in net position	21,151
Net position	
Beginning of year	<u>60,581</u>
End of year	<u>\$ 81,732</u>

SPECIAL SCHOOL DISTRICT NO. 6

Notes to Basic Financial Statements Year Ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Special School District No. 6 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's boundaries and the City of South St. Paul's boundaries are nearly the same, fostering a feeling of family, with many opportunities for parent and community involvement. The mission of the District is delivering lifelong education by providing opportunities for learners of all ages, backgrounds, and needs. In 2009, the District became Minnesota's first K–12 International Baccalaureate (IB) World Schools District after successfully being authorized in the IB Middle Years Program, serving all students in Grades 7–10, and the Primary Years Program, which serves all students in Grades K–6. The District has been offering the IB Diploma Program at the high school since 1986.

B. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, district school boards can elect to either control or not control extracurricular student activities. The District's School Board has elected to control extracurricular activities; therefore, the extracurricular student activity accounts are included in the District's General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and 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 funds. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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 internally directed revenues are reported instead as general revenues.

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

For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as “depreciation not allocated to other functions.” Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

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. For this purpose, the District generally considers revenues, including property taxes, to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term obligations, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Internal service funds are presented in the proprietary fund financial statements. Because the principal users of the internal services are the District's governmental activities, the internal service funds are consolidated into the governmental activities 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 nonoperating 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 to customers (other district funds) for services. Operating expenses for the Internal Service Fund include the cost of providing the services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds are presented in the fiduciary fund financial statements by type: Employee Benefit 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 financial statements.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the 2009 taxable OPEB bond issue.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is primarily used to account for the District's child nutrition program.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Proprietary Funds

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The District's internal service funds are used to account for dental insurance benefits offered by the District to its employees as a self-insured plan and for the payment and financing of its OPEB liabilities, including the administration of assets held in a revocable trust to finance these liabilities.

Fiduciary Fund

Employee Benefit Trust Fund – The Employee Benefit Trust Fund is used to administer resources received and held by the District as the trustee for employees participating in the District's flexible benefit plan (Internal Revenue Code § 125 Cafeteria Plan).

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds, excluding the Capital Projects – Building Construction Fund. The budget for each fund is prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end.

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Bond proceeds recorded in the Capital Projects – Building Construction Fund were not pooled, and earnings on these proceeds were allocated directly to the fund.

Cash and investments held by trustee include balances held in segregated accounts established for specific purposes. In the Internal Service Fund, this represents assets held in a revocable trust established to finance the District's liability for post-employment insurance benefits. Interest earned on these investments is allocated directly to these accounts.

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of three months or less to be cash equivalents. The proprietary fund's equity in the government-wide cash and investment management pool is considered cash equivalent.

Investments are generally stated at fair value, except for investments in certain external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. 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; and Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of year-end.

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are delinquent property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Purchased food inventory is recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures/expenses at the time of consumption.

J. Property Taxes

The majority of the District's revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$434,353 of the property tax levy collectible in 2017 as revenue to the District in fiscal year 2016–2017. The remaining portion of the taxes collectible in 2017 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals, as they are collected.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets that are purchased or constructed by the District are recorded at historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$3,000 or more, which benefit more than one fiscal year. 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 statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and building improvements, and 5 to 20 years for furniture and equipment. Land and construction in progress are not depreciated.

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

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period as other financing sources or uses, respectively. The face amount of debt issued is reported as other financing sources.

M. Compensated Absences

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued in the governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end due to employee termination or similar circumstances. Unused vacation is accrued as it is earned in the government-wide financial statements.

N. Severance

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. Severance benefits are calculated by converting a portion of an eligible employee's unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary. Members of certain employee groups may elect to receive district matching contributions paid into tax deferred matching contribution plans. The amount of any severance or retirement benefit due to an individual is reduced by the total matching contributions made by the District to such a plan over the course of that individual's employment.

Severance payable and the District's share of related benefits are recorded as a liability in the government-wide financial statements as it is earned and it becomes probable that it will vest at some point in the future. Severance pay is accrued in the governmental fund financial statements when the liability matures due to employee termination.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. State-Wide Pension Plans

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 the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the TRA. For this purpose, plan contributions are recognized as of employer payroll 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.

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association in 2015.

The PERA has a special funding situation created by a direct aid contribution made by the state of Minnesota. The direct aid is a result of the merger of the Minneapolis Employees Retirement Fund into the PERA on January 1, 2015.

P. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, statements of financial position or balance sheets will sometimes report separate sections for deferred outflows or inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or an inflow of financial resources (revenue) until then.

The District reports deferred outflows and inflows of resources related to pensions in the government-wide Statement of Net Position. These deferred outflows and inflows result from differences between expected and actual experience, changes in proportion, changes of assumptions, differences between projected and actual earnings on pension plan investments, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

Property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, are 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Position

In the government-wide and internal service fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

R. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District’s superintendent of schools is authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the District’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide and internal service fund financial statements.

T. Risk Management and Self-Insurance

- 1. General Insurance** – 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 workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's coverage in current year.
- 2. Self-Insurance** – The District has established an internal service fund to account for and finance its self-insured risk of loss for the employee dental insurance plan. Under this plan, the internal service fund provides coverage to participating employees and their dependents for various dental costs as described in the plan.

The District makes premium payments that include both employer and employee contributions to the internal service fund on behalf of program participants based on rates determined by insurance company estimates of monthly claims paid for each coverage class, plus the administrative service charges.

District claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. Because actual claim liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the balance of dental claim liabilities for the last year were as follows:

	Balance – Beginning of Year	Charges and Changes in Estimates	Claim Payments	Balance – End of Year
2017	\$ –	\$ 136,414	\$ 117,994	\$ 18,420

U. 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 and disclosures in the financial statements during the reporting period. Actual results could differ from those estimates.

V. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and nonnegotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District’s deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District’s deposits was \$1,932,244, while the balance on the bank records was \$2,209,575. At June 30, 2017, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District’s agent in the District’s name.

B. Investments

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District’s investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Concentration Risk – This is the risk associated with investing a significant portion of the District’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District’s investment policies do not address concentration risk.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District’s investment policies do not limit the maturities of investments; however, when purchasing investments, the District considers such things as interest rates and cash flow needs.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District’s investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. For assets held in the District’s revocable OPEB trust accounted for in its OPEB Internal Service Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statutes § 356A.06, Subd. 7. The District’s investment policies do not further restrict investing in specific financial instruments.

The following table presents the District’s deposit and investment balances, and information relating to potential investment risks:

Investment Type	Credit Risk		Fair Value Measurements	Interest Risk – Maturity Duration in Years			Total
	Rating	Agency		Less Than 1	1 to 5	Over 5	
U.S. treasury note	AAA	Moody’s	Level 1	\$ –	\$ 199,004	\$ –	\$ 199,004
FHLMC	AA	S&P	Level 1	\$ –	\$ 50,337	\$ –	50,337
Mortgage-backed securities	AAA	S&P	Level 1	\$ –	\$ –	\$ 25,205	25,205
Corporate obligations	AA	S&P	Level 1	\$ –	\$ 216,525	\$ –	216,525
Corporate obligations	A	S&P	Level 1	\$ 114,859	\$ 605,757	\$ –	720,616
Corporate obligations	BBB	S&P	Level 1	\$ 99,598	\$ 175,324	\$ –	274,922
Equities	N/R	N/R	Level 1	N/A	N/A	N/A	1,843,985
Real estate investment trust	N/R	N/R	Level 1	N/A	N/A	N/A	11,060
Investment pools/mutual funds							
Mutual funds	N/R	N/R	Level 1	N/A	N/A	N/A	613,700
Mutual funds	N/R	N/R	Level 2	N/A	N/A	N/A	472,131
MSDLAF	AAA	S&P	N/A	N/A	N/A	N/A	11,928,513
Wells Fargo Fund	AAA	S&P	Level 1	N/A	N/A	N/A	143,911
Total investments							16,499,909
Total deposits							1,932,244
Total deposits and investments							<u>\$ 18,432,153</u>

N/A – Not Applicable

N/R – Not Rated

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

The Minnesota School District Liquid Asset Fund (MSDLAF) is regulated by Minnesota Statutes and is an external investment pool, which is not registered with the Securities and Exchange Commission (SEC). The District's investment in the MSDLAF is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. For MSDLAF investments, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for the Liquid Class; redemption notice period is 14 days for the MAX Class.

Deposits and investments are included on the basic financial statements as follows:

Statement of Net Position	
Cash and temporary investments	\$ 13,779,024
Restricted assets	
Cash and investments for OPEB	4,571,397
Statement of Fiduciary Net Position	
Cash and temporary investments	<u>81,732</u>
Total deposits and investments	<u><u>\$ 18,432,153</u></u>

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year is as follows:

	Balance – Beginning of Year	Additions	Deletions	Completed Construction	Balance – End of Year
Capital assets, not depreciated					
Land	\$ 1,590,642	\$ –	\$ –	\$ –	\$ 1,590,642
Construction in progress	<u>–</u>	<u>474,368</u>	<u>–</u>	<u>–</u>	<u>474,368</u>
Total capital assets, not depreciated	1,590,642	474,368	–	–	2,065,010
Capital assets, depreciated					
Buildings	50,156,502	272,665	–	–	50,429,167
Building improvements	6,280,544	63,367	–	–	6,343,911
Furniture and equipment	<u>3,579,966</u>	<u>161,675</u>	<u>–</u>	<u>–</u>	<u>3,741,641</u>
Total capital assets, depreciated	60,017,012	497,707	–	–	60,514,719
Less accumulated depreciation for					
Buildings	(16,554,484)	(933,788)	–	–	(17,488,272)
Building improvements	(1,975,225)	(238,044)	–	–	(2,213,269)
Furniture and equipment	<u>(2,096,881)</u>	<u>(170,418)</u>	<u>–</u>	<u>–</u>	<u>(2,267,299)</u>
Total accumulated depreciation	<u>(20,626,590)</u>	<u>(1,342,250)</u>	<u>–</u>	<u>–</u>	<u>(21,968,840)</u>
Net capital assets, depreciated	<u>39,390,422</u>	<u>(844,543)</u>	<u>–</u>	<u>–</u>	<u>38,545,879</u>
Total capital assets, net	<u><u>\$ 40,981,064</u></u>	<u><u>\$ (370,175)</u></u>	<u><u>\$ –</u></u>	<u><u>\$ –</u></u>	<u><u>\$ 40,610,889</u></u>

Depreciation expense for the year is reported as depreciation not allocated to other functions as a separate function in the Statement of Activities.

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
General obligation bonds payable					
Series 2009A – OPEB	08/05/2009	2.450–4.800%	\$ 5,445,000	02/01/2021	\$ 2,560,000
Series 2010A – Refunding	03/04/2010	2.000–3.000%	\$ 4,105,000	02/01/2021	1,890,000
Series 2013A – Refunding	06/05/2013	2.000%	\$ 5,280,000	02/01/2021	2,760,000
Series 2013B – Building	08/13/2013	2.000–4.000%	\$ 16,675,000	02/01/2029	16,505,000
Series 2014A – Building	01/29/2014	1.000–3.750%	\$ 10,000,000	02/01/2033	9,920,000
Series 2015A – Capital facilities	04/09/2015	2.000%	\$ 1,520,000	02/01/2025	1,235,000
Total general obligation bonds payable					<u>\$ 34,870,000</u>

These bonds were issued to finance acquisition, construction, and/or improvements of capital facilities, to finance the retirement (refunding) of prior bond issues, or to finance OPEB obligations. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized equal 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

B. Capital Lease Payable

In August 2014, the District entered into a capital lease agreement to finance the acquisition of computer equipment. Capital lease proceeds of \$188,972 carried an interest rate of 3.47 percent with a final maturity of August 2016. The assets acquired through this capital lease were not capitalized, as individual asset amounts did not meet the capitalization threshold requirements. The General Fund made the final lease payment in the current year.

C. Other Long-Term Liabilities

The District offers a number of benefits to its employees including pensions, severance benefits, compensated absences, and OPEB. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund. The District has also established an Internal Service Fund to finance OPEB obligations.

District employees participate in two state-wide, cost-sharing, multi-employer defined benefit pension plans, administered by the PERA and the TRA. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans as of and for the year ended June 30, 2017:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	\$ 8,720,346	\$ 3,414,259	\$ 820,721	\$ 1,093,839
TRA	87,538,256	56,217,091	239,571	14,195,578
Total	<u>\$ 96,258,602</u>	<u>\$ 59,631,350</u>	<u>\$ 1,060,292</u>	<u>\$ 15,289,417</u>

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)**D. Minimum Debt Payments**

Minimum annual principal and interest payments to maturity for general obligation bonds payable are as follows:

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2018	\$ 1,865,000	\$ 1,251,760
2019	1,915,000	1,195,560
2020	1,980,000	1,137,035
2021	2,045,000	1,075,278
2022	1,975,000	1,010,338
2023–2027	10,580,000	3,952,263
2028–2032	11,870,000	1,871,888
2033	2,640,000	99,000
	<u>\$ 34,870,000</u>	<u>\$ 11,593,122</u>

E. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year	Due Within One Year
General obligation bonds payable	\$ 36,680,000	\$ –	\$ 1,810,000	\$ 34,870,000	\$ 1,865,000
Unamortized premium/discount	648,281	–	71,870	576,411	–
Total bonds payable	<u>37,328,281</u>	<u>–</u>	<u>1,881,870</u>	<u>35,446,411</u>	<u>1,865,000</u>
Capital leases payable	62,966	–	62,966	–	–
Net pension liability	28,641,263	70,617,447	3,000,108	96,258,602	–
Severance benefits payable	85,022	8,799	–	93,821	–
Compensated absences payable	174,581	379,114	348,453	205,242	205,242
Net OPEB obligation	<u>3,361,876</u>	<u>984,631</u>	<u>586,475</u>	<u>3,760,032</u>	<u>–</u>
	<u>\$ 69,653,989</u>	<u>\$ 71,989,991</u>	<u>\$ 5,879,872</u>	<u>\$ 135,764,108</u>	<u>\$ 2,070,242</u>

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. When applicable, certain restrictions which have an accumulated deficit balance at June 30 are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. A description of these deficit balance restrictions is included on the following page since the District has specific authority to future resources for such deficits.

NOTE 5 – FUND BALANCES (CONTINUED)

A. Classifications

At year-end, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Inventory	\$ –	\$ –	\$ –	\$ 93,432	\$ 93,432
Prepaid items	498,225	–	–	1,264	499,489
Total nonspendable	498,225	–	–	94,696	592,921
Restricted					
Staff development	161,960	–	–	–	161,960
Health and safety	104,222	–	–	–	104,222
Capital projects levy	115,629	–	–	–	115,629
Operating capital	18,706	–	–	–	18,706
Learning and development	313,631	–	–	–	313,631
Gifted and talented	122,897	–	–	–	122,897
Basic skills	603,840	–	–	–	603,840
Safe schools	14,078	–	–	–	14,078
Medical assistance	106,544	–	–	–	106,544
Debt reduction	75,836	–	–	–	75,836
Debt service	–	–	506,850	–	506,850
Food service	–	–	–	819,936	819,936
Community education programs	–	–	–	73,076	73,076
Early childhood family education programs	–	–	–	177,848	177,848
School readiness	–	–	–	96,893	96,893
Adult basic education	–	–	–	80,287	80,287
Total restricted	1,637,343	–	506,850	1,248,040	3,392,233
Assigned					
Subsequent year budget	1,024,923	–	–	–	1,024,923
ATPPS program	169,724	–	–	–	169,724
Student activities	233,201	–	–	–	233,201
Separation benefits	335,000	–	–	–	335,000
Curriculum	250,000	–	–	–	250,000
Staff development	75,000	–	–	–	75,000
Construction	200,000	–	–	–	200,000
Building maintenance	100,000	–	–	–	100,000
Total assigned	2,387,848	–	–	–	2,387,848
Unassigned					
Unassigned – long-term facilities maintenance restricted account deficit	(114,756)	–	–	–	(114,756)
Unassigned	3,883,649	–	–	–	3,883,649
Total unassigned	3,768,893	–	–	–	3,768,893
Total	\$ 8,292,309	\$ –	\$ 506,850	\$ 1,342,736	\$ 10,141,895

B. Minimum Unassigned Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding the minimum unrestricted fund balance for the General Fund. The policy establishes that the District will strive to maintain a minimum unrestricted General Fund balance of 12.0 percent of the annual budget. At June 30, 2017, the unrestricted fund balance (excluding restricted account deficits) of the General Fund was 14.6 percent of fiscal 2017 actual expenditures.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, 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 Minnesota State Colleges 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 administered by MnSCU.

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.
- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually.

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the 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 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent 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 age 66.

2. TRA Benefits

The 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 Statutes 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 the TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier I Benefits

Step-Rate Formula	Percentage per Year
Basic Plan	
First 10 years of service	2.2 %
All years after	2.7 %
Coordinated Plan	
First 10 years if service years are up to July 1, 2006	1.2 %
First 10 years if service years are July 1, 2006 or after	1.4 %
All other years of service if service years are up to July 1, 2006	1.7 %
All other years of service if service years are up to July 1, 2006 or after	1.9 %

With these provisions:

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Tier II Benefits

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

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

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

C. Contributions

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

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2017; the District was required to contribute 7.5 percent for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2017 were \$535,497. The District's contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

Minnesota Statutes, Chapter 354 sets the rates for employer and employee contributions. Rates for each fiscal year were:

	Year Ended June 30,			
	2016		2017	
	Employee	Employer	Employee	Employer
Basic Plan	11.0 %	11.5 %	11.0 %	11.5 %
Coordinated Plan	7.5 %	7.5 %	7.5 %	7.5 %

The District's contributions to the TRA for the plan's fiscal year ended June 30, 2017, were \$1,481,077. The District's contributions were equal to the required contributions for each year as set by state statutes.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The following is a reconciliation of employer contributions in the TRA's Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Nonemployer Pension Allocations:

Employer contributions reported in the TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 354,961,140
Deduct employer contributions not related to future contribution efforts	26,356
Deduct the TRA's contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	354,544,518
Total nonemployer contributions	<u>35,587,410</u>
Total contributions reported in Schedule of Employer and Nonemployer allocations	<u>\$ 390,131,928</u>

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

D. Pension Costs

1. GERF Pension Costs

At June 30, 2017, the District reported a liability of \$8,720,346 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of the PERA's participating employers. The District's proportionate share was 0.1074 percent at the end of the measurement period and 0.1091 percent for the beginning of the period.

The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2017. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. 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	\$ 8,720,346
State's proportionate share of the net pension liability associated with the District	\$ 113,888

For the year ended June 30, 2017, the District recognized pension expense of \$1,059,881 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional \$33,958 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the GERF.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 26,217	\$ 711,360
Changes in actuarial assumptions	1,883,512	–
Differences between projected and actual investment earnings	969,033	–
Changes in proportion	–	109,361
District's contributions to the GERF subsequent to the measurement date	535,497	–
Total	<u>\$ 3,414,259</u>	<u>\$ 820,721</u>

A total of \$535,497 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2018	\$ 561,583
2019	\$ 359,305
2020	\$ 822,160
2021	\$ 314,993

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$87,538,256 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.3670 percent at the end of the measurement period and 0.3716 percent for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to the 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	\$ 87,538,256
State's proportionate share of the net pension liability associated with the District	\$ 8,785,747

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

For the year ended June 30, 2017, the District recognized pension expense of \$12,968,793. It also recognized \$1,226,785 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 890,968	\$ 2,441
Changes in actuarial assumptions	49,866,714	–
Difference between projected and actual investment earnings	3,700,200	–
Changes in proportion	278,132	237,130
District's contributions to the TRA subsequent to the measurement date	1,481,077	–
Total	<u>\$ 56,217,091</u>	<u>\$ 239,571</u>

A total of \$1,481,077 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	\$ 10,894,235
2019	\$ 10,894,235
2020	\$ 12,198,014
2021	\$ 10,849,596
2022	\$ 9,660,363

E. Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50% per year	
Price inflation		2.75%
Wage growth rate		3.50%
Active member payroll	3.25% per year	3.50–9.50% based on years of service
Investment rate of return	7.50%	4.66%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1 percent per year for all future years for the GERF and 2 percent per year for all future years for the TRA.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

The following changes in actuarial assumptions for the GERF occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

There was a change in actuarial assumptions that affected the measurement of the total liability for the TRA since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.00 percent annually, while in the previous measurement the cost of living adjustment increased to 2.50 percent in 2034.

The long-term expected rate of return on pension plan investments is 7.50 percent for the GERF and 4.66 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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

F. Discount Rate

1. GERF

The discount rate used to measure the total pension liability in 2016 was 7.5 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2017 contribution rates. Based on these assumptions, the fiduciary net position of the GERF 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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

2. TRA

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

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:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 12,385,478	\$ 8,720,346	\$ 5,701,277
TRA discount rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	\$ 112,771,154	\$ 87,538,256	\$ 66,986,884

H. Pension Plan Fiduciary Net Position

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

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

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For members of certain employee groups, the District pays for all or part of the eligible retiree’s premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an “implicit rate subsidy.” This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District’s younger and statistically healthier active employees.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the District. The District has established a separate Internal Service Fund to finance these obligations.

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 1,046,637
Interest on net OPEB obligation	117,666
Adjustment to ARC	(179,672)
Annual OPEB cost (expense)	984,631
Contributions made	586,475
Increase in net OPEB obligation	398,156
Net OPEB obligation – beginning of year	3,361,876
Net OPEB obligation – end of year	\$ 3,760,032

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 935,193	\$ 375,060	40.1%	\$ 3,128,747
June 30, 2016	\$ 926,761	\$ 693,632	74.8%	\$ 3,361,876
June 30, 2017	\$ 984,631	\$ 586,475	59.6%	\$ 3,760,032

D. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) were both \$8,728,629, as the plan is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$23,923,562, and the ratio of the UAAL to the covered payroll was 36.5 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 3.50 percent investment rate of return (net of investment expenses) based on the District's own investments; a 3.00 percent rate of projected salary increases; an annual healthcare cost trend rate of 6.75 percent initially, reduced by decrements to an ultimate rate of 5.00 percent after seven years for medical insurance; and an annual healthcare trend rate of 4.00 percent for dental insurance. All rates include a 2.50 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization periods at July 1, 2016 for the various amortization layers ranged from 22 to 30 years.

NOTE 8 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a cafeteria plan (the Plan) under § 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

NOTE 8 – FLEXIBLE BENEFIT PLAN (CONTINUED)

Before the beginning of the plan year, which is from January 1 to December 31, each participant designates a total amount of pretax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the Plan, whether or not such contributions have been made.

Payments of insurance premiums (health, dental, life, and disability) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund and special revenue funds.

Amounts withheld for medical reimbursement and dependent care are accounted for by a district employee who serves as the plan administrator. Payments are made to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the employee. The medical reimbursement and dependent care activity is included in the financial statements as an Employee Benefit Trust Fund.

All property of the Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the Plan are equal to those of general creditors of the District in an amount equal to eligible healthcare and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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 funds. The amount, if any, of funds which may be disallowed by the agency cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

B. Legal Claims

The District has the usual and customary types of miscellaneous legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

C. Operating Leases

The District has entered into a lease agreement with the City of South St. Paul for use of space in the Wakota Arena. The lease agreement is through August 31, 2017 requiring annual base payments ranging from \$50,000 to \$83,882. The District's cost under this lease was \$86,398 for the year ended June 30, 2017. The remaining commitment on this lease is \$14,400 for the year ending June 30, 2018.

The District has entered into a lease agreement for use of early learning space that extends through August 31, 2017, with base rental payments of \$8,311 monthly. The District's cost under this lease was \$140,077 for the year ended June 30, 2017. The remaining commitment on this lease is \$16,622 for the year ending June 30, 2018.

NOTE 10 – SUBSEQUENT EVENTS

In August 2017, the District authorized the issuance of General Obligation Taxable OPEB Refunding Bonds, Series 2017A. The bonds will finance a current refunding of the 2019 through 2021 maturities of the General Obligation Taxable OPEB Bonds, Series 2009A.

On November 7, 2017, district voters approved two referendum questions. The first approval revokes and replaces an additional operating levy in the amount of \$354 per pupil for the next 10 years. The second approval renews an existing technology levy for an additional 10 years.

REQUIRED SUPPLEMENTARY INFORMATION

SPECIAL SCHOOL DISTRICT NO. 6

Public Employees Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2017

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.1107%	\$ 5,200,131	\$ —	\$ 5,200,131	\$ 5,796,603	89.71%	78.70%
06/30/2016	06/30/2015	0.1091%	\$ 5,654,128	\$ —	\$ 5,654,128	\$ 6,430,677	87.92%	78.20%
06/30/2017	06/30/2016	0.1074%	\$ 8,720,346	\$ 113,888	\$ 8,834,234	\$ 6,666,940	130.80%	68.90%

Public Employees Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2017

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 474,641	\$ 474,641	\$ —	\$ 6,430,677	7.38%
06/30/2016	\$ 499,908	\$ 499,908	\$ —	\$ 6,666,940	7.50%
06/30/2017	\$ 535,497	\$ 535,497	\$ —	\$ 7,141,483	7.50%

Note 1: **Changes of Benefit Terms** – On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the GERF, 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.

Note 2: **Changes in Actuarial Assumptions** – (1) 2015 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter. (2) 2016 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

SPECIAL SCHOOL DISTRICT NO. 6

Teachers Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2017

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.3819%	\$ 17,597,677	\$ 1,238,076	\$ 18,835,753	\$ 17,434,323	100.94%	81.50%
06/30/2016	06/30/2015	0.3716%	\$ 22,987,135	\$ 2,819,725	\$ 25,806,860	\$ 18,878,949	121.76%	76.80%
06/30/2017	06/30/2016	0.3670%	\$ 87,538,256	\$ 8,785,747	\$ 96,324,003	\$ 19,304,901	453.45%	44.88%

Teachers Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2017

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 1,415,929	\$ 1,415,929	\$ —	\$ 18,878,949	7.50%
06/30/2016	\$ 1,448,037	\$ 1,448,037	\$ —	\$ 19,304,901	7.50%
06/30/2017	\$ 1,481,077	\$ 1,481,077	\$ —	\$ 19,744,761	7.50%

Note 1: **Changes of Benefit Terms** – The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

Note 2: **Change of Assumptions** – (1) 2015 Changes – The annual cost of living adjustment for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent with an increase to 2.50 percent commencing in 2034. The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent. (2) 2016 Changes – The discount rate used to measure the total pension liability was 4.66 percent. Details, if necessary, can be obtained from the TRA's CAFR.

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

SPECIAL SCHOOL DISTRICT NO. 6

Schedule of Funding Progress
Other Post-Employment Benefits Plan
Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2012	\$ 7,667,445	\$ —	\$ 7,667,445	— %	\$ 20,195,598	38.0 %
July 1, 2014	\$ 7,857,721	\$ —	\$ 7,857,721	— %	\$ 22,665,405	34.7 %
July 1, 2016	\$ 8,728,629	\$ —	\$ 8,728,629	— %	\$ 23,923,562	36.5 %

SUPPLEMENTAL INFORMATION

SPECIAL SCHOOL DISTRICT NO. 6

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2017

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	\$ 872,717	\$ 591,638	\$ 1,464,355
Receivables			
Current taxes	—	312,327	312,327
Delinquent taxes	—	8,260	8,260
Accounts and interest	14	2,081	2,095
Due from other governmental units	16,236	333,653	349,889
Inventory	93,432	—	93,432
Prepaid items	—	1,264	1,264
Total assets	<u>\$ 982,399</u>	<u>\$ 1,249,223</u>	<u>\$ 2,231,622</u>
Liabilities			
Salaries payable	\$ 27,289	\$ 59,756	\$ 87,045
Accounts and contracts payable	32,695	36,457	69,152
Due to other governmental units	—	196,994	196,994
Unearned revenue	9,047	8,975	18,022
Total liabilities	<u>69,031</u>	<u>302,182</u>	<u>371,213</u>
Deferred inflows of resources			
Unavailable revenue – delinquent taxes	—	6,169	6,169
Property taxes levied for subsequent year	—	511,504	511,504
Total deferred inflows of resources	<u>—</u>	<u>517,673</u>	<u>517,673</u>
Fund balances			
Nonspendable	93,432	1,264	94,696
Restricted	819,936	428,104	1,248,040
Total fund balances	<u>913,368</u>	<u>429,368</u>	<u>1,342,736</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 982,399</u>	<u>\$ 1,249,223</u>	<u>\$ 2,231,622</u>

SPECIAL SCHOOL DISTRICT NO. 6

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2017

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	\$ —	\$ 499,803	\$ 499,803
Investment earnings	5,452	5,216	10,668
Other	588,009	1,249,816	1,837,825
State sources	131,150	802,800	933,950
Federal sources	1,305,420	14,704	1,320,124
Total revenue	<u>2,030,031</u>	<u>2,572,339</u>	<u>4,602,370</u>
Expenditures			
Current			
Food service	2,031,111	—	2,031,111
Community service	—	2,431,938	2,431,938
Capital outlay	8,236	10,523	18,759
Total expenditures	<u>2,039,347</u>	<u>2,442,461</u>	<u>4,481,808</u>
Net change in fund balances	(9,316)	129,878	120,562
Fund balances			
Beginning of year	<u>922,684</u>	<u>299,490</u>	<u>1,222,174</u>
End of year	<u>\$ 913,368</u>	<u>\$ 429,368</u>	<u>\$ 1,342,736</u>

SPECIAL SCHOOL DISTRICT NO. 6

General Fund
Comparative Balance Sheet
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 10,256,444	\$ 10,235,216
Receivables		
Current taxes	3,098,506	3,044,904
Delinquent taxes	103,949	144,350
Accounts and interest	23,918	21,649
Due from other governmental units	3,329,374	4,093,988
Prepaid items	<u>498,225</u>	<u>585,063</u>
Total assets	<u>\$ 17,310,416</u>	<u>\$ 18,125,170</u>
Liabilities		
Salaries payable	\$ 1,658,204	\$ 1,762,571
Accounts and contracts payable	2,018,257	2,516,321
Due to other governmental units	260,449	6,306
Unearned revenue	<u>465,093</u>	<u>680,779</u>
Total liabilities	4,402,003	4,965,977
Deferred inflows of resources		
Unavailable revenue – delinquent taxes	79,217	122,627
Property taxes levied for subsequent year	<u>4,536,887</u>	<u>4,663,865</u>
Total deferred inflows of resources	4,616,104	4,786,492
Fund balances (deficit)		
Nonspendable for prepaid items	498,225	585,063
Restricted for staff development	161,960	62,527
Restricted for health and safety	104,222	–
Restricted for capital projects levy	115,629	3,343
Restricted for operating capital	18,706	118,397
Restricted for learning and development	313,631	278,018
Restricted for gifted and talented	122,897	101,901
Restricted for basic skills	603,840	502,817
Restricted for safe schools	14,078	17,097
Restricted for medical assistance	106,544	–
Restricted for debt reduction	75,836	52,115
Assigned for subsequent year budget	1,024,923	1,004,655
Assigned for ATPPS program	169,724	149,402
Assigned for student activities	233,201	187,341
Assigned for separation benefits	335,000	335,000
Assigned for curriculum	250,000	250,000
Assigned for Jefferson	–	300,000
Assigned for staff development	75,000	75,000
Assigned for construction	200,000	200,000
Assigned for building maintenance	100,000	100,000
Unassigned – health and safety restricted account deficit	–	(44,452)
Unassigned – long-term facilities maintenance restricted account deficit	(114,756)	–
Unassigned	<u>3,883,649</u>	<u>4,094,477</u>
Total fund balances	<u>8,292,309</u>	<u>8,372,701</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 17,310,416</u>	<u>\$ 18,125,170</u>

SPECIAL SCHOOL DISTRICT NO. 6

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2017
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017		2016	
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 5,360,193	\$ 5,452,392	\$ 92,199	\$ 5,064,027
Investment earnings	10,000	66,287	56,287	38,514
Other	672,832	940,808	267,976	806,478
State sources	34,302,761	35,121,981	819,220	34,259,165
Federal sources	1,257,864	1,325,739	67,875	1,257,276
Total revenue	41,603,650	42,907,207	1,303,557	41,425,460
Expenditures				
Current				
Administration				
Salaries	799,633	797,931	(1,702)	800,859
Employee benefits	255,848	245,942	(9,906)	263,670
Purchased services	16,820	(11,793)	(28,613)	(10,352)
Supplies and materials	2,700	2,912	212	2,620
Capital expenditures	1,000	1,000	—	—
Other expenditures	26,900	36,926	10,026	22,901
Total administration	1,102,901	1,072,918	(29,983)	1,079,698
District support services				
Salaries	957,402	943,905	(13,497)	927,127
Employee benefits	341,026	372,009	30,983	311,093
Purchased services	358,772	264,452	(94,320)	231,452
Supplies and materials	125,550	120,636	(4,914)	121,699
Capital expenditures	2,250	2,212	(38)	1,660
Other expenditures	850	1,687	837	855
Total district support services	1,785,850	1,704,901	(80,949)	1,593,886
Elementary and secondary regular instruction				
Salaries	13,681,208	13,537,592	(143,616)	13,221,801
Employee benefits	5,107,639	5,255,189	147,550	5,375,557
Purchased services	838,643	925,018	86,375	653,293
Supplies and materials	668,805	487,747	(181,058)	654,112
Capital expenditures	87,810	98,470	10,660	79,147
Other expenditures	14,745	106,119	91,374	14,044
Total elementary and secondary regular instruction	20,398,850	20,410,135	11,285	19,997,954

(continued)

SPECIAL SCHOOL DISTRICT NO. 6

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2017
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017		2016	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	130,600	132,327	1,727	96,825
Employee benefits	50,214	50,271	57	44,053
Purchased services	—	2,967	2,967	4,218
Supplies and materials	—	1,225	1,225	2,558
Other expenditures	—	711	711	190
Total vocational education instruction	180,814	187,501	6,687	147,844
Special education instruction				
Salaries	5,275,966	5,178,009	(97,957)	5,050,107
Employee benefits	2,078,376	2,118,724	40,348	2,175,674
Purchased services	428,507	376,970	(51,537)	565,457
Supplies and materials	79,470	41,023	(38,447)	33,129
Capital expenditures	7,030	6,984	(46)	8,044
Other expenditures	2,000	29,956	27,956	38
Total special education instruction	7,871,349	7,751,666	(119,683)	7,832,449
Instructional support services				
Salaries	2,135,826	2,128,007	(7,819)	2,070,649
Employee benefits	628,436	725,546	97,110	743,156
Purchased services	677,088	472,218	(204,870)	506,837
Supplies and materials	121,675	136,719	15,044	65,748
Capital expenditures	—	—	—	296,648
Other expenditures	19,635	29,785	10,150	24,554
Total instructional support services	3,582,660	3,492,275	(90,385)	3,707,592
Pupil support services				
Salaries	768,368	742,383	(25,985)	674,118
Employee benefits	339,670	323,489	(16,181)	313,098
Purchased services	1,451,580	1,617,519	165,939	1,618,255
Supplies and materials	16,170	2,796	(13,374)	3,758
Other expenditures	—	3,476	3,476	—
Total pupil support services	2,575,788	2,689,663	113,875	2,609,229

(continued)

SPECIAL SCHOOL DISTRICT NO. 6

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2017
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017		2016
	Budget	Actual	Over (Under) Budget
			Actual
Expenditures (continued)			
Current (continued)			
Sites and buildings			
Salaries	1,564,674	1,528,181	(36,493)
Employee benefits	496,641	472,086	(24,555)
Purchased services	1,848,429	1,758,930	(89,499)
Supplies and materials	285,725	234,241	(51,484)
Capital expenditures	1,082,291	1,410,632	328,341
Other expenditures	58,000	56,980	(1,020)
Total sites and buildings	5,335,760	5,461,050	125,290
Fiscal and other fixed cost programs			
Purchased services	160,000	155,560	(4,440)
Debt service			
Principal	62,966	62,966	—
Interest and fiscal charges	2,182	2,182	—
Total debt service	65,148	65,148	—
Total expenditures	43,059,120	42,990,817	(68,303)
Excess (deficiency) of revenue over expenditures	(1,455,470)	(83,610)	1,371,860
Other financing sources (uses)			
Sale of capital assets	—	3,218	3,218
Transfers (out)	—	—	—
Total other financing sources (uses)	—	3,218	3,218
Net change in fund balances	\$ (1,455,470)	(80,392)	\$ 1,375,078
Fund balances			
Beginning of year		8,372,701	8,947,873
End of year		\$ 8,292,309	\$ 8,372,701

SPECIAL SCHOOL DISTRICT NO. 6

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 872,717	\$ 862,953
Receivables		
Accounts and interest	14	1,923
Due from other governmental units	16,236	17,883
Inventory	<u>93,432</u>	<u>96,776</u>
Total assets	<u><u>\$ 982,399</u></u>	<u><u>\$ 979,535</u></u>
Liabilities		
Salaries payable	\$ 27,289	\$ 4,219
Accounts and contracts payable	32,695	46,730
Unearned revenue	<u>9,047</u>	<u>5,902</u>
Total liabilities	69,031	56,851
Fund balances		
Nonspendable for inventory	93,432	96,776
Restricted for food service	<u>819,936</u>	<u>825,908</u>
Total fund balances	<u><u>913,368</u></u>	<u><u>922,684</u></u>
Total liabilities and fund balances	<u><u>\$ 982,399</u></u>	<u><u>\$ 979,535</u></u>

SPECIAL SCHOOL DISTRICT NO. 6

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2017
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017		2016	
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 300	\$ 5,452	\$ 5,152	\$ 4,143
Other – primarily meal sales	636,963	588,009	(48,954)	622,512
State sources	83,992	131,150	47,158	106,152
Federal sources	1,265,916	1,305,420	39,504	1,238,637
Total revenue	<u>1,987,171</u>	<u>2,030,031</u>	<u>42,860</u>	<u>1,971,444</u>
Expenditures				
Current				
Salaries	725,446	689,627	(35,819)	619,349
Employee benefits	255,185	248,027	(7,158)	226,482
Purchased services	172,917	204,298	31,381	176,735
Supplies and materials	934,441	888,488	(45,953)	838,165
Other expenditures	240	671	431	–
Capital outlay	15,000	8,236	(6,764)	207,187
Total expenditures	<u>2,103,229</u>	<u>2,039,347</u>	<u>(63,882)</u>	<u>2,067,918</u>
Net change in fund balances	<u>\$ (116,058)</u>	<u>(9,316)</u>	<u>\$ 106,742</u>	<u>(96,474)</u>
Fund balances				
Beginning of year		<u>922,684</u>		<u>1,019,158</u>
End of year		<u>\$ 913,368</u>		<u>\$ 922,684</u>

SPECIAL SCHOOL DISTRICT NO. 6

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 591,638	\$ 639,281
Receivables		
Current taxes	312,327	302,812
Delinquent taxes	8,260	10,416
Accounts and interest	2,081	13,139
Due from other governmental units	333,653	78,516
Prepaid items	<u>1,264</u>	<u>2,180</u>
Total assets	<u><u>\$ 1,249,223</u></u>	<u><u>\$ 1,046,344</u></u>
Liabilities		
Salaries payable	\$ 59,756	\$ 36,252
Accounts and contracts payable	36,457	193,673
Due to other governmental units	196,994	—
Unearned revenue	<u>8,975</u>	<u>8,973</u>
Total liabilities	<u>302,182</u>	<u>238,898</u>
Deferred inflows of resources		
Unavailable revenue – delinquent taxes	6,169	8,657
Property taxes levied for subsequent year	<u>511,504</u>	<u>499,299</u>
Total deferred inflows of resources	<u>517,673</u>	<u>507,956</u>
Fund balances (deficit)		
Nonspendable for prepaid items	1,264	2,180
Restricted for community education programs	73,076	—
Restricted for early childhood family education programs	177,848	142,066
Restricted for school readiness	96,893	83,423
Restricted for adult basic education	80,287	73,122
Unassigned – community education programs		
restricted account deficit	<u>—</u>	<u>(1,301)</u>
Total fund balances	<u>429,368</u>	<u>299,490</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 1,249,223</u></u>	<u><u>\$ 1,046,344</u></u>

SPECIAL SCHOOL DISTRICT NO. 6

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2017
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 499,299	\$ 499,803	\$ 504	\$ 445,331
Investment earnings	—	5,216	5,216	1,827
Other – primarily tuition and fees	1,228,323	1,249,816	21,493	1,359,612
State sources	823,864	802,800	(21,064)	715,092
Federal sources	12,000	14,704	2,704	13,279
Total revenue	<u>2,563,486</u>	<u>2,572,339</u>	<u>8,853</u>	<u>2,535,141</u>
Expenditures				
Current				
Salaries	1,527,955	1,534,888	6,933	1,425,269
Employee benefits	490,720	472,645	(18,075)	457,508
Purchased services	322,868	304,459	(18,409)	300,431
Supplies and materials	105,850	113,555	7,705	74,901
Other expenditures	4,895	6,391	1,496	1,754
Capital outlay	12,500	10,523	(1,977)	13,768
Total expenditures	<u>2,464,788</u>	<u>2,442,461</u>	<u>(22,327)</u>	<u>2,273,631</u>
Net change in fund balances	<u>\$ 98,698</u>	129,878	<u>\$ 31,180</u>	261,510
Fund balances				
Beginning of year		<u>299,490</u>		<u>37,980</u>
End of year		<u>\$ 429,368</u>		<u>\$ 299,490</u>

SPECIAL SCHOOL DISTRICT NO. 6

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	<u>\$ —</u>	<u>\$ 271,761</u>
Liabilities		
Accounts and contracts payable	\$ —	\$ 109,524
Fund balances		
Restricted for building construction	<u> —</u>	<u> 162,237</u>
Total liabilities and fund balances	<u>\$ —</u>	<u>\$ 271,761</u>

SPECIAL SCHOOL DISTRICT NO. 6

Capital Projects – Building Construction Fund
Comparative Schedule of Revenue, Expenditures, and Changes in Fund Balances
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue		
Local sources		
Investment earnings	\$ 591	\$ 4,230
Expenditures		
Capital outlay		
Purchased services	272	158,493
Capital expenditures	<u>162,556</u>	<u>4,852,320</u>
Total expenditures	<u>162,828</u>	<u>5,010,813</u>
Net change in fund balances	(162,237)	(5,006,583)
Fund balances		
Beginning of year	<u>162,237</u>	<u>5,168,820</u>
End of year	<u>\$ —</u>	<u>\$ 162,237</u>

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SPECIAL SCHOOL DISTRICT NO. 6

Debt Service Fund
Balance Sheet by Account
as of June 30, 2017
(With Comparative Totals as of June 30, 2016)

	Regular Debt Service Account	OPEB Debt Service Account	Totals	
			2017	2016
Assets				
Cash and temporary investments	\$ 1,543,671	\$ 434,909	\$ 1,978,580	\$ 1,892,528
Receivables				
Current taxes	1,542,585	440,242	1,982,827	1,926,703
Delinquent taxes	42,409	13,640	56,049	73,660
Accounts and interest	—	—	—	2,521
Due from other governmental units	—	—	—	14
Total assets	<u>\$ 3,128,665</u>	<u>\$ 888,791</u>	<u>\$ 4,017,456</u>	<u>\$ 3,895,426</u>
Liabilities				
Unearned revenue	\$ 221,000	\$ —	\$ 221,000	\$ 221,000
Deferred inflows of resources				
Unavailable revenue – delinquent taxes	31,904	10,349	42,253	61,371
Property taxes levied for subsequent year	<u>2,526,345</u>	<u>721,008</u>	<u>3,247,353</u>	<u>3,176,475</u>
Total deferred inflows of resources	<u>2,558,249</u>	<u>731,357</u>	<u>3,289,606</u>	<u>3,237,846</u>
Fund balances				
Restricted for debt service	<u>349,416</u>	<u>157,434</u>	<u>506,850</u>	<u>436,580</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,128,665</u>	<u>\$ 888,791</u>	<u>\$ 4,017,456</u>	<u>\$ 3,895,426</u>

SPECIAL SCHOOL DISTRICT NO. 6

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account
Budget and Actual
Year Ended June 30, 2017
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017		
		Actual	
	Budget	Regular Debt Service Account	OPEB Debt Service Account
Revenue			
Local sources			
Property taxes	\$ 3,176,276	\$ 2,463,529	\$ 717,855
Investment earnings	—	7,490	2,449
State sources	—	—	—
Total revenue	3,176,276	2,471,019	720,304
Expenditures			
Debt service			
Principal	1,810,000	1,235,000	575,000
Interest	1,304,673	1,163,188	141,485
Fiscal charges and other	6,450	5,930	450
Total expenditures	3,121,123	2,404,118	716,935
Excess (deficiency) of revenue over expenditures	55,153	66,901	3,369
Other financing sources			
Transfers in	—	—	—
Net change in fund balances	\$ 55,153	66,901	3,369
Fund balances			
Beginning of year		282,515	154,065
End of year		\$ 349,416	\$ 157,434

		2016
Total	Over (Under) Budget	Actual
\$ 3,181,384	\$ 5,108	\$ 3,096,797
9,939	9,939	5,431
—	—	149
3,191,323	15,047	3,102,377
1,810,000	—	1,770,000
1,304,673	—	1,349,680
6,380	(70)	6,370
3,121,053	(70)	3,126,050
70,270	15,117	(23,673)
—	—	145,000
70,270	\$ 15,117	121,327
436,580		315,253
\$ 506,850		\$ 436,580

SPECIAL SCHOOL DISTRICT NO. 6

Internal Service Funds
Combining Statement of Net Position
as of June 30, 2017
(With Comparative Totals as of June 30, 2016)

	Dental Self-Insurance	Other Post – Employment Benefits	Totals	
			2017	2016
Assets				
Current assets				
Cash and temporary investments	\$ 79,645	\$ –	\$ 79,645	\$ –
Receivables				
Accounts and interest	2,835	–	2,835	–
Restricted assets				
Cash and cash equivalents	–	2,912,311	2,912,311	2,617,276
Investments	–	1,659,086	1,659,086	1,588,973
Total current assets	82,480	4,571,397	4,653,877	4,206,249
Liabilities				
Current liabilities				
Unearned revenue	28,083	–	28,083	–
Claims incurred, but not reported	18,420	–	18,420	–
Total current liabilities	46,503	–	46,503	–
Long-term liabilities				
Net OPEB obligations	–	3,760,032	3,760,032	3,361,876
Total liabilities	46,503	3,760,032	3,806,535	3,361,876
Net position				
Restricted for OPEB	–	811,365	811,365	844,373
Unrestricted	35,977	–	35,977	–
Total net position	\$ 35,977	\$ 811,365	\$ 847,342	\$ 844,373

SPECIAL SCHOOL DISTRICT NO. 6

Internal Service Funds
Combining Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	Dental Self-Insurance	Other Post – Employment Benefits	Totals	
			2017	2016
Operating revenue				
Contributions from governmental funds	\$ 172,391	\$ 586,475	\$ 758,866	\$ 693,632
Operating expenses				
Dental benefit claims	136,414	–	136,414	–
OPEB	–	984,631	984,631	926,761
Total operating expenses	<u>136,414</u>	<u>984,631</u>	<u>1,121,045</u>	<u>926,761</u>
Operating income (loss)	35,977	(398,156)	(362,179)	(233,129)
Nonoperating revenue				
Investment earnings (loss)	<u>–</u>	<u>365,148</u>	<u>365,148</u>	<u>(56,771)</u>
Change in net position	35,977	(33,008)	2,969	(289,900)
Net position				
Beginning of year	<u>–</u>	<u>844,373</u>	<u>844,373</u>	<u>1,134,273</u>
End of year	<u>\$ 35,977</u>	<u>\$ 811,365</u>	<u>\$ 847,342</u>	<u>\$ 844,373</u>

SPECIAL SCHOOL DISTRICT NO. 6

Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	Dental Self-Insurance	Other Post – Employment Benefits	Total	
			2017	2016
Cash flows from operating activities				
Received from assessments made to other funds	\$ 197,639	\$ 586,475	\$ 784,114	\$ 693,632
Payment for dental claims	(117,994)	–	(117,994)	–
Post-employment benefit payments	–	(586,475)	(586,475)	(693,632)
Net cash flows from operating activities	79,645	–	79,645	–
Cash flows from investing activities				
Purchase of investments	–	(188,813)	(188,813)	(211,269)
Sale of investments	–	118,700	118,700	302,601
Interest on investments	–	365,148	365,148	(56,771)
Net cash flows from investing activities	–	295,035	295,035	34,561
Net change in cash and cash equivalents	79,645	295,035	374,680	34,561
Cash and cash equivalents				
Beginning of year	–	2,617,276	2,617,276	2,582,715
End of year	<u>\$ 79,645</u>	<u>\$ 2,912,311</u>	<u>\$ 2,991,956</u>	<u>\$ 2,617,276</u>
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	\$ 35,977	\$ (398,156)	\$ (362,179)	\$ (233,129)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Changes in assets and liabilities				
Accounts and interest receivable	(2,835)	–	(2,835)	–
Unearned revenue	28,083	–	28,083	–
Claims incurred, but not reported	18,420	–	18,420	–
Net OPEB obligation	–	398,156	398,156	233,129
Net cash flows from operating activities	<u>\$ 79,645</u>	<u>\$ –</u>	<u>\$ 79,645</u>	<u>\$ –</u>
Cash and cash equivalents are reported on the Statement of Net Position as follows:				
Cash and temporary investments	\$ 79,645	\$ –	\$ 79,645	\$ –
Cash and cash equivalents	–	2,912,311	2,912,311	2,617,276
Total cash and cash equivalents	<u>\$ 79,645</u>	<u>\$ 2,912,311</u>	<u>\$ 2,991,956</u>	<u>\$ 2,617,276</u>

OTHER DISTRICT INFORMATION

(UNAUDITED)

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SPECIAL SCHOOL DISTRICT NO. 6

Government-Wide Revenue by Type
Last Ten Fiscal Years

Year Ended June 30,	Program Revenues		General Revenues			Total
	Charges for Services	Operating Grants and Contributions	Property Taxes	General Grants and Aids	Investment Earnings and Other	
2008	\$ 2,879,311 7%	\$ 6,141,676 15%	\$ 7,108,233 18%	\$ 23,212,832 58%	\$ 941,987 2%	\$ 40,284,039 100%
2009	2,909,473 7%	5,331,681 13%	8,286,635 21%	23,616,319 58%	444,465 1%	40,588,573 100%
2010	2,885,180 7%	5,832,928 15%	8,344,278 21%	22,634,604 57%	176,053 —	39,873,043 100%
2011	2,827,857 7%	6,148,088 15%	11,420,169 27%	20,101,699 49%	716,341 2%	41,214,154 100%
2012	2,661,679 6%	5,695,085 14%	8,923,422 22%	23,757,188 58%	124,340 —	41,161,714 100%
2013	2,686,319 6%	6,435,504 15%	8,310,930 20%	24,614,074 58%	616,600 1%	42,663,427 100%
2014	2,502,597 6%	6,428,553 15%	5,660,896 13%	28,358,725 65%	745,221 1%	43,695,992 100%
2015	2,668,863 5%	6,909,688 15%	8,617,083 18%	28,799,116 61%	314,619 1%	47,309,369 100%
2016	2,679,050 5%	7,276,738 15%	8,644,541 18%	30,313,012 62%	120,499 —	49,033,840 100%
2017	2,593,395 5%	7,945,568 15%	9,068,563 18%	31,866,738 61%	641,089 1%	52,115,353 100%

Note: The change in “tax shift” as approved in legislation impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. Changes in the amount of revenue recognized due to the tax shift are offset by an adjustment to state aid payments by an equal amount.

SPECIAL SCHOOL DISTRICT NO. 6

Government-Wide Expenses by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction	Instructional Support Services	Pupil Support Services
2008	\$ 1,133,202 3%	\$ 677,678 2%	\$ 16,421,802 41%	\$ 415,407 1%	\$ 6,552,716 16%	\$ 2,615,050 7%	\$ 1,793,737 5%
2009	1,222,705 3%	675,186 2%	16,621,668 43%	399,108 1%	5,268,241 14%	3,026,873 8%	1,715,026 4%
2010	918,191 2%	647,279 2%	16,562,389 43%	252,151 1%	5,798,734 15%	2,697,836 7%	1,829,664 5%
2011	936,969 2%	571,894 2%	16,706,339 42%	253,389 1%	6,069,374 15%	2,982,567 8%	1,834,422 5%
2012	864,544 2%	684,754 2%	17,014,454 44%	265,411 1%	6,085,145 15%	2,869,793 7%	1,629,324 4%
2013	942,689 2%	762,764 2%	17,971,803 44%	171,539 1%	6,411,286 15%	3,083,373 7%	1,714,132 4%
2014	870,834 2%	1,216,403 3%	18,349,953 42%	236,672 1%	6,816,750 16%	3,012,807 7%	1,806,707 4%
2015	1,033,622 2%	1,360,462 3%	19,102,239 40%	245,692 1%	7,330,447 16%	3,573,162 8%	2,093,948 4%
2016	1,153,014 2%	1,612,075 3%	20,230,015 41%	150,444 —	7,934,604 16%	3,743,950 8%	2,624,337 5%
2017	1,493,074 2%	1,788,939 3%	28,839,252 46%	251,888 1%	10,463,569 17%	4,493,422 7%	3,007,484 5%

Sites and Buildings	Fiscal and Other Fixed Cost Programs	Food Service	Community Service	Depreciation Not Allocated to Other Functions	Interest and Fiscal Charges	Total
\$ 4,510,178 11%	\$ 122,149 —	\$ 1,558,088 4%	\$ 2,135,649 5%	\$ 710,559 2%	\$ 1,122,761 3%	\$ 39,768,976 100%
4,140,635 11%	119,451 —	1,531,723 4%	2,223,349 6%	730,908 2%	926,071 2%	38,600,944 100%
3,609,112 10%	155,918 —	1,724,491 5%	2,420,004 6%	763,033 2%	874,336 2%	38,253,138 100%
4,123,103 10%	121,761 —	1,676,808 4%	2,676,777 7%	776,791 2%	819,610 2%	39,549,804 100%
4,523,908 11%	113,771 —	1,722,078 4%	2,361,546 6%	785,438 2%	610,425 2%	39,530,591 100%
4,634,278 11%	118,911 —	1,674,627 4%	2,450,631 6%	773,799 2%	674,622 2%	41,384,454 100%
4,465,638 10%	130,887 —	1,720,704 4%	2,432,466 5%	761,628 2%	1,604,152 4%	43,425,601 100%
5,899,085 12%	139,313 —	1,784,294 4%	2,547,479 5%	907,695 2%	1,343,443 3%	47,360,881 100%
5,130,866 10%	145,114 —	1,868,409 4%	2,278,869 5%	1,349,560 3%	1,277,194 3%	49,498,451 100%
4,803,238 8%	155,560 —	2,081,770 3%	2,759,987 4%	1,342,250 2%	1,219,318 2%	62,699,751 100%

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SPECIAL SCHOOL DISTRICT NO. 6

General Fund Revenue by Source
Last Ten Fiscal Years

<u>Year Ended June 30,</u>	<u>Local Property Tax Levies</u>	<u>State Revenue</u>	<u>Federal Revenue</u>	<u>Other Local and Miscellaneous</u>	<u>Total</u>
2008	\$ 4,911,860 14%	\$ 26,622,654 79%	\$ 1,165,270 3%	\$ 1,264,997 4%	\$ 33,964,781 100%
2009	5,959,272 17%	26,169,302 77%	1,159,925 3%	897,808 3%	34,186,307 100%
2010	6,077,843 18%	22,939,120 68%	3,820,728 11%	842,433 3%	33,680,124 100%
2011	9,020,408 26%	22,451,939 65%	2,186,889 6%	884,680 3%	34,543,916 100%
2012	6,320,046 18%	26,467,481 77%	1,154,065 3%	868,163 2%	34,809,755 100%
2013	5,993,422 17%	28,046,726 77%	1,362,961 4%	883,566 2%	36,286,675 100%
2014	3,444,981 10%	31,513,967 85%	1,221,561 3%	854,343 2%	37,034,852 100%
2015	5,398,296 14%	32,342,678 81%	1,218,316 3%	916,987 2%	39,876,277 100%
2016	5,064,027 12%	34,259,165 83%	1,257,276 3%	844,992 2%	41,425,460 100%
2017	5,452,392 13%	35,121,981 82%	1,325,739 3%	1,007,095 2%	42,907,207 100%

Note: The change in “tax shift” as approved in legislation impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. Changes in the amount of revenue recognized due to the tax shift are offset by an adjustment to state aid payments by an equal amount.

SPECIAL SCHOOL DISTRICT NO. 6

General Fund Expenditures by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction
2008	\$ 1,133,202 3%	\$ 677,678 2%	\$ 16,489,153 48%	\$ 415,407 1%	\$ 6,552,716 19%
2009	1,138,722 3%	675,186 2%	16,332,814 49%	399,108 1%	5,180,710 16%
2010	1,000,109 2%	722,357 2%	19,145,787 51%	282,173 1%	6,785,154 18%
2011	967,662 2%	562,321 2%	16,229,465 48%	247,033 1%	5,888,748 18%
2012	843,583 2%	675,281 2%	16,542,521 49%	259,121 1%	5,906,391 17%
2013	890,024 2%	748,850 2%	17,448,094 49%	166,422 —	6,198,625 18%
2014	916,594 2%	1,191,400 3%	17,833,876 49%	229,287 1%	6,603,735 18%
2015	995,335 2%	1,355,193 3%	19,001,794 46%	244,040 1%	7,278,906 18%
2016	1,079,698 2%	1,593,886 4%	19,997,954 48%	147,844 —	7,832,449 19%
2017	1,072,918 2%	1,704,901 4%	20,410,135 48%	187,501 —	7,751,666 18%

<u>Instructional Support Services</u>	<u>Pupil Support Services</u>	<u>Sites and Buildings</u>	<u>Other Programs</u>	<u>Total</u>
\$ 2,615,050 8%	\$ 1,793,737 5%	\$ 4,739,441 13%	\$ 279,072 1%	\$ 34,695,456 100%
3,013,743 9%	1,706,273 5%	4,761,024 14%	203,533 1%	33,411,113 100%
2,981,074 8%	1,933,313 5%	4,526,399 12%	228,831 1%	37,605,197 100%
2,928,809 9%	1,810,118 5%	4,630,580 14%	188,338 1%	33,453,074 100%
2,816,592 8%	1,605,272 5%	5,008,509 15%	297,210 1%	33,954,480 100%
3,023,767 9%	1,689,984 5%	4,876,894 14%	330,844 1%	35,373,504 100%
2,961,199 8%	1,783,217 5%	4,640,689 13%	321,762 1%	36,481,759 100%
3,596,957 9%	2,093,077 5%	6,107,057 15%	267,150 1%	40,939,509 100%
3,707,592 9%	2,609,229 6%	4,649,362 11%	262,554 1%	41,880,568 100%
3,492,275 8%	2,689,663 6%	5,461,050 13%	220,708 1%	42,990,817 100%

SPECIAL SCHOOL DISTRICT NO. 6

School Tax Levies and Tax Rates by Fund
Last Ten Fiscal Years

	<u>Year Collectible</u>	<u>General Fund</u>	<u>Community Service Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total All Funds</u>
Levies					
	2008	\$ 6,004,479	\$ 260,253	\$ 2,189,438	\$ 8,454,170
	2009	6,169,861	294,858	2,113,764	8,578,483
	2010	6,397,909	320,842	2,079,840	8,798,591
	2011	5,974,094	302,297	2,455,196	8,731,587
	2012	5,885,823	300,211	1,988,390	8,174,424
	2013	5,859,808	359,131	2,040,956	8,259,895
	2014	5,360,648	313,666	2,916,376	8,590,690
	2015	5,018,970	446,220	3,101,405	8,566,595
	2016	5,072,061	499,299	3,176,475	8,747,835
	2017	4,971,240	511,504	3,247,353	8,730,097
Tax capacity rates					
	2008	14.057	1.443	12.140	27.640
	2009	13.894	1.593	11.420	26.907
	2010	13.592	1.766	11.449	26.807
	2011	13.715	1.860	15.106	30.681
	2012	16.907	2.020	13.379	32.306
	2013	17.855	2.637	14.986	35.478
	2014	20.025	2.379	22.118	44.522
	2015	13.836	2.773	19.272	35.881
	2016	12.591	3.278	20.850	36.719
	2017	12.815	3.137	19.916	35.868
Market value rates					
	2008	0.18110	—	—	0.18110
	2009	0.18357	—	—	0.18357
	2010	0.21400	—	—	0.21400
	2011	0.21687	—	—	0.21687
	2012	0.19530	—	—	0.19530
	2013	0.21801	—	—	0.21801
	2014	0.14862	—	—	0.14862
	2015	0.16295	—	—	0.16295
	2016	0.18667	—	—	0.18667
	2017	0.14734	—	—	0.14734

Note: A tax rate based on market value is used primarily for the District's referendum levy.

Source: State of Minnesota School Tax Report

SPECIAL SCHOOL DISTRICT NO. 6

Tax Capacities and Market Values
Last Ten Fiscal Years

Taxes Collectible	Tax Capacity Valuation					Market Value
	Agricultural and Nonagricultural	Net Fiscal Disparities Distribution	Tax Increment	Total Taxable		
2008	\$ 18,568,912	\$ 2,121,187	\$ (2,227,676)	\$ 18,462,423	\$ 1,624,331,500	
2009	18,307,927	2,461,939	(2,357,707)	18,412,159	1,588,604,500	
2010	17,142,697	2,687,600	(1,678,542)	18,151,755	1,477,603,900	
2011	15,567,450	2,723,445	(1,548,398)	16,742,497	1,329,568,050	
2012	13,872,371	2,658,809	(1,480,108)	15,051,072	1,294,977,350	
2013	12,878,501	2,506,969	(1,445,441)	13,940,029	1,202,553,350	
2014	12,885,732	2,606,084	(1,556,699)	13,935,117	1,199,668,500	
2015	14,232,820	2,550,076	(1,568,940)	15,213,956	1,322,540,825	
2016	14,486,492	2,491,955	(1,661,773)	15,316,674	1,333,685,325	
2017	15,213,174	2,736,665	(1,732,491)	16,217,348	1,394,111,550	

Source: State of Minnesota School Tax Report

SPECIAL SCHOOL DISTRICT NO. 6

Property Tax Levies and Receivables
Last Ten Fiscal Years

Taxes Collectible	Original Levy			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread
2008	\$ 6,879,770	\$ 1,250,490	\$ 323,910	\$ 8,454,170
2009	6,597,110	1,665,177	316,196	8,578,483
2010	6,674,756	1,799,120	324,715	8,798,591
2011	6,477,594	1,898,153	355,840	8,731,587
2012	6,179,907	1,994,517	—	8,174,424
2013	6,295,738	1,964,157	—	8,259,895
2014	6,346,937	2,243,753	—	8,590,690
2015	6,306,926	2,259,669	—	8,566,595
2016	6,791,300	1,956,535	—	8,747,835
2017	6,468,534	2,261,563	—	8,730,097

Note 1: A portion of the total spread levy is paid through various property tax credits which are paid through state aids. Legislative changes beginning with taxes collectible in 2012 significantly reduced or eliminated the amount of tax credits applied and paid through state aids.

Note 2: Delinquent taxes are written off after seven years.

Source: State of Minnesota School Tax Report

Uncollected Taxes Receivable as of June 30, 2017

Delinquent			Current		
Amount	Percent		Amount	Percent	
\$ —	—	%	\$ —	—	%
—	—		—	—	
—	—		—	—	
19,278	0.22		—	—	
11,221	0.14		—	—	
12,419	0.15		—	—	
16,525	0.19		—	—	
22,668	0.26		—	—	
86,147	0.98		—	—	
—	—		5,393,660	61.78	
<u>\$ 168,258</u>			<u>\$ 5,393,660</u>		

SPECIAL SCHOOL DISTRICT NO. 6

Students Served
Last Ten Fiscal Years

Year Ended June 30,	Average Daily Membership (ADM) (Including Enrollment Option)					Total Pupil Units
	Pre-Kindergarten and Handicapped Kindergarten	Kindergarten	Elementary	Secondary	Total	
2008	62.33	234.87	1,451.57	1,580.92	3,329.69	3,847.75
2009	57.95	252.32	1,466.62	1,560.30	3,337.19	3,844.62
2010	63.68	232.35	1,488.29	1,520.54	3,304.86	3,810.61
2011	61.50	237.02	1,476.23	1,457.05	3,231.80	3,716.55
2012	67.40	267.58	1,509.01	1,490.83	3,334.82	3,820.66
2013	79.48	245.08	1,584.80	1,470.86	3,380.22	3,874.81
2014	67.30	251.99	1,621.44	1,477.92	3,418.65	3,917.20
2015	55.54	251.13	1,657.25	1,503.79	3,467.71	3,768.45
2016	70.67	230.04	1,681.05	1,526.21	3,507.97	3,813.22
2017	118.10	199.33	1,654.37	1,553.84	3,525.64	3,836.42

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

Note 2: ADM is weighted as follows in computing pupil units:

	<u>Pre-Kindergarten</u>	<u>Handicapped Kindergarten</u>	<u>Half-Day Kindergarten</u>	<u>Full-Day Kindergarten</u>	<u>Elementary 1-3</u>	<u>Elementary 4-6</u>	<u>Secondary</u>
Fiscal 2008 through 2014	1.250	1.000	0.612	0.612	1.115	1.060	1.300
Fiscal 2015 through 2017	1.000	1.000	0.550	1.000	1.000	1.000	1.200

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

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SPECIAL SCHOOL DISTRICT NO. 6

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures	Noncash Assistance
U.S. Department of Education			
Passed through Minnesota Department of Education			
Special education cluster			
Special Education – Grants to States	84.027	\$ 689,179	
Special Education – Preschool Grants	84.173	<u>20,843</u>	
Total special education cluster		\$ 710,022	
Special Education – Grants for Infants and Families	84.181	19,844	
Title I Grants to Local Educational Agencies	84.010	444,305	
Supporting Effective Instruction State Grant	84.367	133,677	
English Language Acquisition State Grants	84.365	11,605	
Adult Education – Basic Grants to States	84.002	14,704	
Passed through Intermediate School District No. 917			
Career and Technical Education – Basic Grants to States	84.048	6,286	
U.S. Department of Agriculture			
Passed through Minnesota Department of Education			
Child nutrition cluster			
School Breakfast Program	10.553	265,106	
National School Lunch Program	10.555	965,716	\$ 145,716
Summer Food Service Program for Children	10.559	<u>74,598</u>	
Total child nutrition cluster		<u>1,305,420</u>	
Total federal awards		<u>\$ 2,645,863</u>	

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The District did not elect to use the 10 percent de minimis indirect cost rate.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the School Board and Management of
Special School District No. 6
South St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Special School District No. 6 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified one deficiency in internal control as item 2017-001 that we consider to be a material weakness.

(continued)

COMPLIANCE AND OTHER MATTERS

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

DISTRICT'S RESPONSE TO FINDING

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
November 13, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the School Board and Management of
Special School District No. 6
South St. Paul, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Special School District No. 6's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

(continued)

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 13, 2017

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Special School District No. 6
South St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Special School District No. 6 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2017.

MINNESOTA LEGAL COMPLIANCE

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

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 13, 2017

SPECIAL SCHOOL DISTRICT NO. 6

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued? X Unmodified
 Qualified
 Adverse
 Disclaimer

Internal control over financial reporting:

Material weakness(es) identified? X Yes No
Significant deficiency(ies) identified? Yes X None reported
Noncompliance material to the financial statements noted? Yes X No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major programs?

U.S. Department of Agriculture – child nutrition cluster Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Programs tested as major programs:

<u>Program or Cluster</u>	<u>CFDA No.</u>
The U.S. Department of Agriculture – child nutrition cluster consisting of:	
– School Breakfast Program	10.553
– National School Lunch Program	10.555
– Summer Food Service Program for Children	10.559

Threshold for distinguishing type A and B programs. \$ 750,000

Does the auditee qualify as a low-risk auditee? Yes X No

SPECIAL SCHOOL DISTRICT NO. 6

Schedule of Findings and Questioned Costs (continued) Year Ended June 30, 2017

B. FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2017-001 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – Special School District No. 6 (the District) has limited segregation of duties in several areas, including the processing of receipts, payroll transactions, adjusting journal entries, and certain computer controls.

Questioned Costs – Not applicable.

Context – The condition applies to multiple areas as noted above.

Repeat Finding – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the District's business office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no one individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected and corrected in a timely manner in the normal course of business.

Recommendation – We recommend that the District continue its efforts to segregate duties as best it can within the limits of what the District considers to be cost beneficial.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District intends to review policies, procedures, and transaction cycles, and work with the District's financial auditors to review specific weaknesses identified during the annual audit and actions needed to eliminate or mitigate this internal control weakness. The District has separately issued a Corrective Action Plan related to this finding.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

None.

SPECIAL SCHOOL DISTRICT NO. 6

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2017

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		\$ 42,907,207	\$ 42,907,206	\$ 1
Total expenditures		\$ 42,990,817	\$ 42,990,817	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 498,225	\$ 498,225	\$ –
Restricted				
403	Staff development	\$ 161,960	\$ 161,960	\$ –
406	Health and safety	\$ 104,222	\$ 104,222	\$ –
407	Capital projects levy	\$ 115,629	\$ 115,629	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
413	Project funded by COP	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ 18,706	\$ 18,706	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ 313,631	\$ 313,631	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ 122,897	\$ 122,897	\$ –
440	Teacher development and evaluation	\$ –	\$ –	\$ –
441	Basic skills programs	\$ 603,840	\$ 603,840	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
448	Achievement and integration	\$ –	\$ –	\$ –
449	Safe schools levy	\$ 14,078	\$ 14,078	\$ –
450	Pre-kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
467	Long-term facilities maintenance	\$ (114,756)	\$ (114,756)	\$ –
472	Medical Assistance	\$ 106,544	\$ 106,544	\$ –
464	Restricted fund balance	\$ 75,836	\$ 75,836	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ 2,387,848	\$ 2,387,848	\$ –
Unassigned				
422	Unassigned fund balance	\$ 3,883,649	\$ 3,883,649	\$ –
Food Service				
Total revenue		\$ 2,030,031	\$ 2,030,031	\$ –
Total expenditures		\$ 2,039,347	\$ 2,039,347	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 93,432	\$ 93,432	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 819,936	\$ 819,936	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Community Service				
Total revenue		\$ 2,572,339	\$ 2,572,339	\$ –
Total expenditures		\$ 2,442,461	\$ 2,442,461	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 1,264	\$ 1,264	\$ –
Restricted				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ 73,076	\$ 73,076	\$ –
432	ECFE	\$ 177,848	\$ 177,848	\$ –
440	Teacher development and evaluation	\$ –	\$ –	\$ –
444	School readiness	\$ 96,893	\$ 96,893	\$ –
447	Adult basic education	\$ 80,287	\$ 80,287	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

SPECIAL SCHOOL DISTRICT NO. 6

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2017

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		\$ 591	\$ 591	\$ –
Total expenditures		\$ 162,828	\$ 162,827	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
407	Capital projects levy	\$ –	\$ –	\$ –
413	Project funded by COP	\$ –	\$ –	\$ –
467	Long-term facilities maintenance	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Debt Service				
Total revenue		\$ 2,471,019	\$ 2,471,019	\$ –
Total expenditures		\$ 2,404,118	\$ 2,404,118	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 349,416	\$ 349,416	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Trust				
Total revenue		\$ 235,183	\$ 235,183	\$ –
Total expenditures		\$ 214,032	\$ 214,031	\$ 1
422	Net position	\$ 81,732	\$ 81,732	\$ –
Internal Service				
Total revenue		\$ 172,391	\$ 172,391	\$ –
Total expenditures		\$ 136,414	\$ 136,414	\$ –
422	Net position	\$ 35,977	\$ 35,977	\$ –
OPEB Revocable Trust Fund				
Total revenue		\$ 951,623	\$ 951,623	\$ –
Total expenditures		\$ 984,631	\$ 984,631	\$ –
422	Net position	\$ 811,365	\$ 811,365	\$ –
OPEB Irrevocable Trust Fund				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
OPEB Debt Service Fund				
Total revenue		\$ 720,304	\$ 720,304	\$ –
Total expenditures		\$ 716,935	\$ 716,935	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 157,434	\$ 157,434	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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