

DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2016

DEFOREST AREA SCHOOL DISTRICT
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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

January 9, 2017

To the Board of Education
DeForest Area School District
DeForest, Wisconsin

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 the DeForest Area School District as of and for the year ended June 30, 2016, 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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the DeForest Area School District, as of June 30, 2016, and the respective changes in financial position thereof 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 on pages i through xi, the budgetary comparison information, schedule of funding progress for postemployment benefit plans, and Wisconsin Retirement System Schedules on pages 41 through 45 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DeForest Area School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Guidelines, and are also not a required part of the basic financial statements.

The supplementary information listed in the table of contents and the schedules of expenditures of federal and state awards 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 supplementary information and the schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Johnson Block & Company, Inc.
Certified Public Accountants
Mineral Point, Wisconsin

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

To the Board of Education
DeForest Area School District

The Management's Discussion and Analysis of the DeForest Area School District's 2015-2016 financial performance provides an overall review of financial activities for the fiscal year. The analysis focuses on school district financial performance as a whole. Efforts have been made to provide comparison to prior year data when such data is available. It should be read in conjunction with the District's financial statements, which immediately follows this section.

Financial Highlights

The District's overall financial position, as reflected in total net position, increased by \$1,945,504.

Total District revenues on the statement of activities were \$46,118,115 including \$22,614,582 of property taxes and \$17,415,696 of federal and state aid not restricted for a specific purpose. Total District expenditures were \$44,172,611; including \$23,116,288 for direct instruction.

The following events took place during fiscal 2015-2016:

- At the end of the current fiscal year, fund balance for the general fund was approximately \$18.9 million. \$63,477 of that amount was assigned for the ACT 59 project (CTE certifications). The fund balance of Total Governmental Funds was approximately \$52.9 million. The breakdown of the \$52.9 million is as follows:

\$18.9 million General Fund
\$26.3 million Capital Projects
\$ 7.7 million Non-Major Governmental Funds

- Total unassigned Governmental Funds fund balance as of the end of the fiscal year is 35% of total expenditures.
- The 2015 tax levy increased from the prior year 4.12% from a total levy of \$21,719,377 to \$22,614,582.
- The District continued to allocate funds for Other Post Employment Benefit (OPEB) during the 2015-2016 fiscal year. The District's 2015-16 contribution was \$682,946.
- The District did not have a need to borrow short-term for cash-flow purposes due to the District's commitment to maintaining an appropriate fund balance. The District is able to avoid interest expense related to short-term borrowing.
- Instructional costs represent the single largest cost for the General Fund at 57.4% or \$21,522,200.

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

Overview of the Financial Statements

The basic financial statements are comprised of 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition, other information supplementary to the basic financial statements is provided.

The basic financial statements consist of two kinds of statements that present different views of the District's financial activities.

- The *Statement of Net Position and Statement of Activities* provide information on a district-wide basis. The statements present an aggregate view of the District's finances. District-wide statements contain useful long-term information as well as information for the just-completed fiscal year.
- The remaining statements are *fund financial statements* that focus on individual parts of the District. Fund statements generally report operations in more detail than the District-wide statements.

The *notes to the financial statements* provide further explanation of some of the information in the statements and provide additional disclosures so statement users have a complete picture of the District's financial activities and position.

Required supplementary information further explains and supports the financial statements by including a comparison of the District's budget data for the year.

The major features of the District's financial statements, including the activities reported and the type of information contained, is shown in the following table.

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

Major Features of the District-wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as instruction, support services, debt service, capital projects, food service and community services	Assets held by the District on behalf of someone else <ul style="list-style-type: none"> • Student and other organizations that have funds on deposit with the district are reported here. • Other Post Employee Benefits.
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position. • Statement of Changes in Fiduciary Net Position.
Basis of accounting and measurement focus	<p>Accrual accounting</p> <p>Economic resources focus</p>	<p>Modified accrual accounting</p> <p>Current financial resources focus</p>	<p>Accrual accounting</p> <p>Economic resources focus</p>
Type of asset and liability information	All assets and liabilities; both financial and capital, short-term and long-term	<p>Generally assets expected to be used up and liabilities that come due during the year or soon thereafter.</p> <p>No capital assets or long-term liabilities included</p>	<p>All assets and liabilities, both financial and capital, short-term and long-term</p> <p>These funds do not currently contain any capital assets, although they can.</p>
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	<p>Revenues for which cash is received during or soon after the end of the year</p> <p>Expenditures when goods or services have been received and the related liability are due and payable</p>	All additions or deductions during the year, regardless of when cash is received and paid

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Activities reports all revenues and expenses used to support the District. The Statement of Net Position reports all assets and deferred outflow, liabilities and deferred inflows available to support District activities. The two district-wide statements report the District's *net position* and how they have changed. Net Position, the difference between the District's assets and liabilities, are one way to measure the District's overall financial position. Increases or decreases in the District's net position are one indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall financial condition of the District, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities should be considered.

In the district-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation, support services, debt service, capital projects, and administration. Property taxes and state formula aid finance most of these activities.
- *Business-type activities* - Activities that are intended to be mostly self-supporting and meet certain accounting criteria are considered business-type activities. The District has no business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of sources of funding and spending on particular programs and to demonstrate compliance with various regulatory requirements. Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like capital project funds).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for funding future basic services. Governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Governmental funds information does not report on long-term commitments as is reported on the district-wide statements.
- *Fiduciary funds* – The District serves as a trustee, or fiduciary, for Other Post-Employment Benefits trust and student organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and only by those to whom the assets belong. These activities are excluded from the district-wide financial statements because the District cannot use these assets to finance its operations.

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

Financial Analysis of the District as a Whole

Table 1 provides a summary of the District's net position for the years ended June 30, 2016 and 2015.

Table 1		
Condensed Statement of Net Position		
	Governmental Activities	
	2016	2015
Assets		
Current assets	\$ 60,583,659	\$ 53,805,411
Capital assets (less depreciation)	56,814,360	48,257,641
Other assets	4,721,834	8,799,407
Total assets	<u>\$ 122,119,853</u>	<u>\$ 110,862,459</u>
Deferred outflows of resources	<u>\$ 12,135,162</u>	<u>\$ 2,997,692</u>
Liabilities		
Current liabilities	\$ 11,870,724	\$ 7,954,722
Non-current liabilities	50,645,530	40,901,669
Total liabilities	<u>\$ 62,516,254</u>	<u>\$ 48,856,391</u>
Deferred inflows of resources	<u>\$ 4,794,495</u>	<u>\$ 4,998</u>
Net Position		
Net investment in capital assets	\$ 40,337,568	\$ 35,245,396
Restricted	12,077,449	2,930,014
Unrestricted	14,529,249	26,823,352
Total net position	<u>\$ 66,944,266</u>	<u>\$ 64,998,762</u>

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

Financial Analysis of the District as a Whole (Continued)

Table 2 provides summarized operating results and their impact on Net Position.

Table 2		
Change in Net Position from Operating Results		
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 2,238,859	\$ 1,307,923
Operating grants and contributions	3,543,897	4,129,462
General revenues:		
Property taxes	22,614,582	21,719,377
State formula aid	17,415,696	17,189,837
Other	305,081	172,773
Total revenues	46,118,115	44,519,372
Expenses		
Instruction	23,116,288	19,168,873
Pupil & instructional services	5,199,389	4,402,979
Building and general administration	2,899,155	2,348,204
Business administration and central services	7,700,330	7,882,565
Transportation and insurance	1,807,329	1,719,397
Food service	1,503,194	1,500,870
Debt service and other support services	1,303,136	2,194,500
Community services	126,706	129,892
Other	517,084	1,025,217
Total expenses	44,172,611	40,372,497
Increase (decrease) in net position	\$ 1,945,504	\$ 4,146,875

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

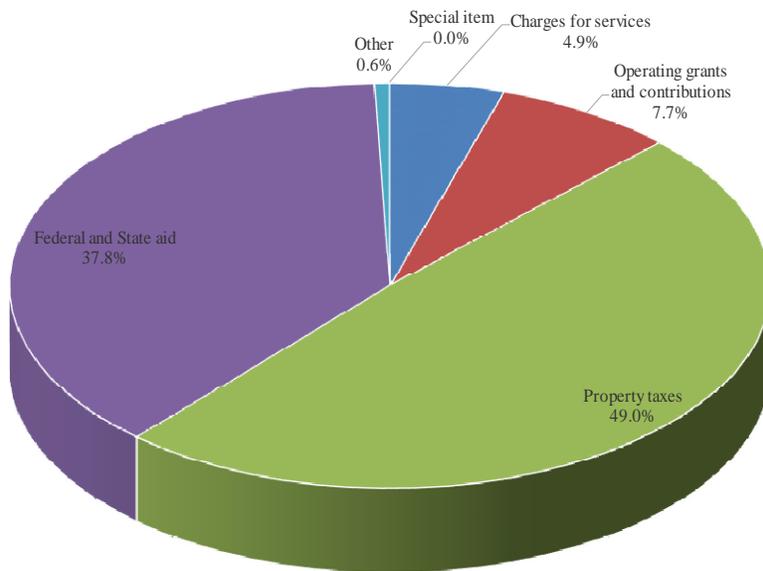
Financial Analysis of the District as a Whole (Continued)

The District relies primarily on property taxes and state formula aid to fund governmental activities. The District received \$46.1 million in revenue for fiscal year 2016 for Governmental Activities with 49.0% from property taxes and 37.8% from general federal and state aid. The remaining 13.2% of revenue came from charges for services, operating grants and contributions, and other.

The District received \$2.24 million in open enrollment, textbook and activity fees, admissions to athletic events, food service payments and building rental fees. This revenue came directly from individuals who participated or benefited from a specific program.

Federal and state government subsidized District programs with grants and contributions totaling \$3.54 million. The aid the District received for special education, transportation, and food service programs, as well as other instructional and support programs are included here.

Revenues by Source 2015-16



DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

Financial Analysis of the District as a Whole (Continued)

Table 3 presents the cost of the nine categories of district activities. The table reports each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost reflects the financial burden that was placed on the District's taxpayers by each of these functions.

Table 4
Net Cost of Governmental Activities

	Net Cost of Services 2016	Percent of Services 2016	Net Cost of Services 2015	Percent of Services 2015
Expenses				
Instruction	19,238,810	50.1%	15,926,289	45.6%
Pupil & instructional services	4,972,680	13.0%	3,881,337	11.1%
Building and general administration	2,892,670	7.5%	2,254,071	6.5%
Business administration and central services	7,696,630	20.0%	7,882,565	22.6%
Transportation	1,404,041	3.7%	1,365,097	3.9%
Food services	(7,107)	0.0%	(3,408)	0.0%
Debt service and other support services	1,811,070	4.7%	2,194,500	6.3%
Community services	55,561	0.1%	129,892	0.4%
Other	325,500	0.8%	1,304,769	3.7%
Total Expenses	38,389,855	100.0%	34,935,112	100.0%

The cost of all governmental activities this year was \$44,172,611. Individuals who directly participated or benefited from a program offering paid for \$2,238,859 of costs. Federal and state governments subsidized certain programs with grants and contributions of \$3,543,897. The net cost of governmental activities \$38,389,855 was financed by general revenues of the District including in \$22,614,582 property taxes, \$17,415,696 state formula aid, and \$305,081 other.

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

Financial Aspects of the District's Funds

- The general fund had a total increase in fund balance of \$414,925 and as of June 30, 2016 has a balance of \$18,852,401. The unassigned fund balance increased by \$339,675. Assigned fund balance increased by \$63,477. Non-spendable fund balance increased by \$11,773.
- The debt service fund had an increase to fund balance of \$191,264 and as of June 30, 2016 has a balance of \$2,662,607.
- The food service fund balance for 2015-16 showed an increase of \$4,511 and as of June 30, 2016 has a balance of \$520,084.
- The OPEB (Other Post Employee Benefits) Liability fund balance decrease by \$57,781 and as of June 30, 2016 has a balance of \$3,394,524.
- The private purpose trust fund which holds scholarship balances increased by \$25,769 and as of June 30, 2016 has a balance of \$331,152.

General Fund Budgetary Highlights

Consistent with current state statutes and regulations an *original* budget is adopted in October following determination of official enrollment and certification of states aids. Generally, the original budget is not significantly modified. The District modified its original budget in 2015-16 to reflect:

- The General Fund revenue budget saw a decrease of \$561,515. The Special Education revenue budget increased by \$117,371.
- The General Fund expenditure budget saw a decrease of \$654,397. The Special Education expenditure budget increased by \$23,103.
- The Special Revenue Trust revenues were increased to projected actual activity.
- The Debt Service Fund revenues were increased to projected actual activity.
- Long-term Capital Improvement Trust Fund revenues were decreased to projected actual activity.
- Food Service Fund revenues were decreased to projected actual activity.
- The Private Purpose Trust Fund and Employee Benefit Trust fund revenues both increased to projected actual activity.
- The Community Service Fund revenues increased to projected actual activity.
- The rest of the funds budgets, fund 41, 49, 96, and 97, revenue and expenditures budgets were not changed and remained at the original budget.

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

Capital Assets

At the end of fiscal year 2016, the District had invested \$84,455,552 in capital assets; including buildings, sites and equipment (see Table 4). Total accumulated depreciation on assets was \$27,641,192. Asset acquisitions for governmental activities totaled \$10,121,606 and disposals totaled \$38,161. The District recognized depreciation expense of \$1,564,887 for the year. (Detailed information about capital assets can be found in Note 6 to the financial statements.)

Table 5
Capital Assets
(Net of depreciation)

	2016	2015
Land	\$ 8,143,382	\$ 8,143,382
Buildings	57,122,403	57,122,403
Land improvements	2,173,350	2,134,410
Equipment and vehicles	7,301,859	6,971,912
Construction in progress	9,714,558	-
Accumulated depreciation	(27,641,192)	(26,114,466)
Net capital assets	\$ 56,814,360	\$ 48,257,641

Long-term Liabilities

At year-end the District had \$45,415,000 in general obligation bonds and other long-term debt outstanding. Payments were made for a total of \$3,115,000 to general obligations debt. Detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

	2016	2015
General Obligation Bonds	\$ 45,415,000	\$ 38,530,000
Compensated Absences	3,981,710	3,634,844
Capital Lease	24,939	130,683
Premium/Discount on Debt	2,643,265	2,669,373
Termination Benefit	75,300	-
Net Long Term Liabilities	\$ 52,140,214	\$ 44,964,900

General Obligation Bonds of the District are secured by an irrevocable tax levy adopted by the School Board at the time of issuance. Wisconsin state statutes require that the first property tax receipts be segregated for annual debt service payments.

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

Management Discussion & Analysis
June 30, 2016

Factors Bearing on the District's Future

Currently known circumstances that will impact the District's financial status in the future are:

- In January 2017 the districted completed the final phase of the 2015 Referendum borrowing.

Contacting the District's Financial Management

This financial report is 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, Kathleen Davis, Director of Business & Auxiliary Services, DeForest Area School District, 520 East Holum Street, DeForest, Wisconsin.

BASIC FINANCIAL STATEMENTS

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**STATEMENT OF NET POSITION
June 30, 2016**

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Investments	\$ 18,905,682
Restricted Cash and Investments	33,476,399
Receivables:	
Taxes	5,264,069
Accounts	139,697
Prepaid Expenses	83,454
Due from Fiduciary Funds	761,360
Due from Other Governments	1,952,998
Total Current Assets	60,583,659
Noncurrent Assets:	
Land and Land Improvements	10,316,732
Work in Progress	9,714,558
Buildings and Building Improvements	57,122,403
Equipment and Vehicles	7,301,859
Less: Accumulated Depreciation	(27,641,192)
Net Capital Assets	56,814,360
Total Noncurrent Assets	56,814,360
Restricted Assets:	
Net OPEB Asset	4,721,834
Total Restricted Assets	4,721,834
Total Assets	122,119,853
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Pension Outflows	12,135,162
Total Assets and Deferred Outflows of Resources	\$ 134,255,015
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 4,778,292
Deposits	39,365
Accrued Liabilities:	
Payroll and Related Items	2,906,239
Interest	376,262
Current Portion of Long-Term Obligations	3,770,566
Total Current Liabilities	11,870,724
Noncurrent Liabilities:	
Noncurrent Portion of Long-Term Obligations	45,379,252
Vested Employee Benefits	2,990,395
Net Pension Liability	2,275,883
Total Noncurrent Liabilities	50,645,530
Total Liabilities	62,516,254
DEFERRED INFLOWS OF RESOURCES	
Deferred Pension Inflows	4,794,495
Total Deferred Inflows of Resources	4,794,495
NET POSITION	
Net Investment in Capital Assets	40,337,568
Restricted	12,077,449
Unrestricted	14,529,249
Total Net Position	66,944,266
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 134,255,015

See accompanying notes to the financial statements.

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Instruction				
Regular Instruction	\$ 15,496,669	\$ 983,759	\$ 355,131	\$ (14,157,779)
Vocational Instruction	1,302,038	-	22,585	(1,279,453)
Special Education Instruction	4,639,129	-	2,184,231	(2,454,898)
Other Instruction	1,678,452	190,702	141,070	(1,346,680)
Total Instruction	<u>23,116,288</u>	<u>1,174,461</u>	<u>2,703,017</u>	<u>(19,238,810)</u>
Support Services				
Pupil Services	2,052,507	1,837	148,401	(1,902,269)
Instructional Staff Services	3,146,882	-	76,471	(3,070,411)
General Administration Services	860,370	-	950	(859,420)
Building Administration Services	2,038,785	-	5,535	(2,033,250)
Business Administration	1,693,935	-	-	(1,693,935)
Operation and Maintenance	4,042,024	-	3,700	(4,038,324)
Pupil Transportation	1,490,979	14,685	72,253	(1,404,041)
Central Services	1,964,371	-	-	(1,964,371)
Insurance	316,350	-	-	(316,350)
Interest and Fiscal Charges on Debt	1,303,136	-	-	(1,303,136)
Other Support Services	507,934	-	-	(507,934)
Food Services	1,503,194	976,731	533,570	7,107
Community Services	126,706	71,145	-	(55,561)
Unallocated Depreciation	9,150	-	-	(9,150)
Total Support Services	<u>21,056,323</u>	<u>1,064,398</u>	<u>840,880</u>	<u>(19,151,045)</u>
Total Governmental Activities	<u>\$ 44,172,611</u>	<u>\$ 2,238,859</u>	<u>\$ 3,543,897</u>	<u>(38,389,855)</u>

General revenues:

Taxes:	
Property Taxes, Levied for General Purposes	18,283,082
Property Taxes, Levied for Debt Service	4,331,500
Federal and State Aid not Restricted to Specific Purpose	
General	17,415,696
Interest and Investment Earnings	222,128
Miscellaneous	82,953
Total General Revenues	<u>40,335,359</u>
Change in Net Position	1,945,504
Net Position - Beginning	64,998,762
Net Position - Ending	<u>\$ 66,944,266</u>

See accompanying notes to the financial statements.

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016**

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Investments	\$ 15,439,238	\$ -	\$ 3,466,444	\$ 18,905,682
Restricted Cash and Investments	-	30,449,258	3,027,141	33,476,399
Receivables:				
Taxes	5,264,069	-	-	5,264,069
Accounts	87,910	48,276	3,511	139,697
Due from Other Funds	762,676	-	1,350,000	2,112,676
Due from Other Governments	1,952,998	-	-	1,952,998
Prepaid Expenses	83,454	-	-	83,454
TOTAL ASSETS	<u>\$ 23,590,345</u>	<u>\$ 30,497,534</u>	<u>\$ 7,847,096</u>	<u>\$ 61,934,975</u>
LIABILITIES				
Accounts Payable	\$ 491,434	\$ 4,221,933	\$ 64,924	\$ 4,778,291
Accrued Salaries and Wages	2,245,222	-	9,022	2,254,244
Payroll Taxes and Withholdings	651,288	-	707	651,995
Food Service Deposits	-	-	39,365	39,365
Due to Other Funds	1,350,000	-	1,316	1,351,316
Total Liabilities	<u>4,737,944</u>	<u>4,221,933</u>	<u>115,334</u>	<u>9,075,211</u>
FUND BALANCES				
Nonspendable	83,454	-	-	83,454
Restricted	-	26,275,601	7,731,762	34,007,363
Assigned	63,477	-	-	63,477
Unassigned	18,705,470	-	-	18,705,470
Total Fund Balances	<u>18,852,401</u>	<u>26,275,601</u>	<u>7,731,762</u>	<u>52,859,764</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 23,590,345</u>	<u>\$ 30,497,534</u>	<u>\$ 7,847,096</u>	<u>\$ 61,934,975</u>

See accompanying notes to the basic financial statements

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION**

June 30, 2016

Total fund balance, governmental funds	\$ 52,859,764
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.</p>	56,814,360
<p>Pension deferred outflows of resources and deferred inflows of resources are actuarially determined by the defined pension plan. These items are reflected in the Statement of Net Position and are being amortized with pension expense in the Statement of Activities. The deferred outflows of resources and deferred inflows of resources are not financial resources or used and therefore are not reported in the fund statements.</p>	
Net deferred outflows and inflows of resources	7,340,667
<p>Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.</p>	
Net OPEB Asset	4,721,834
<p>Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.</p>	
General Obligation Debt	(45,415,000)
Capital Leases Payable	(24,939)
Net Pension Liability	(2,275,883)
Unamortized Premium on Debt	(2,643,265)
Accrued interest on long-term debt	(376,262)
Accrued Termination Benefits	(75,300)
Compensated Absences	(3,981,710)
Net Position of Governmental Activities in the Statement of Net Position	\$ 66,944,266

See accompanying notes to the financial statements.

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes	\$ 17,746,082	\$ -	\$ 4,868,500	\$ 22,614,582
Other Local Sources	332,474	127,439	1,326,456	1,786,369
Interdistrict Sources	868,695	-	1,470	870,165
Intermediate Sources	2,708	-	-	2,708
State Sources	18,946,795	-	23,097	18,969,892
Federal Sources	1,284,466	-	510,473	1,794,939
Other Sources	76,192	-	3,268	79,460
	<u>39,257,412</u>	<u>127,439</u>	<u>6,733,264</u>	<u>46,118,115</u>
EXPENDITURES				
Instruction:				
Regular Instruction	14,329,938	-	74,293	14,404,231
Vocational Instruction	1,205,607	-	1,733	1,207,340
Special Instruction	4,441,488	-	-	4,441,488
Other Instruction	1,545,167	-	119,570	1,664,737
Total Instruction	<u>21,522,200</u>	<u>-</u>	<u>195,596</u>	<u>21,717,796</u>
Support Services:				
Pupil Services	1,948,082	-	121	1,948,203
Instructional Staff Services	3,002,764	-	-	3,002,764
General Administration Services	735,183	-	900	736,083
Building Administration Services	1,820,655	-	629	1,821,284
Business Administration	557,414	-	-	557,414
Operation and Maintenance	3,912,051	9,755,974	39,410	13,707,435
Pupil Transportation	1,472,643	-	10,355	1,482,998
Central Services	1,786,023	-	4,000	1,790,023
Insurance	316,350	-	-	316,350
Food Services	-	-	1,486,785	1,486,785
Community Services	-	-	120,186	120,186
Principal and Interest	114,079	-	4,314,837	4,428,916
Other Support Services	308,045	-	3,176	311,221
Total Support Services	<u>15,973,289</u>	<u>9,755,974</u>	<u>5,980,399</u>	<u>31,709,662</u>
Total Expenditures	<u>37,495,489</u>	<u>9,755,974</u>	<u>6,175,995</u>	<u>53,427,458</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,761,923</u>	<u>(9,628,535)</u>	<u>557,269</u>	<u>(7,309,343)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Long-Term Bonds	-	10,000,000	-	10,000,000
Premium on Long-Term Debt	-	-	166,138	166,138
Transfer In	3,002	-	1,350,000	1,353,002
Transfer Out	(1,350,000)	-	(3,002)	(1,353,002)
Total Other Financing Sources (Uses)	<u>(1,346,998)</u>	<u>10,000,000</u>	<u>1,513,136</u>	<u>10,166,138</u>
Net Change in Fund Balances	414,925	371,465	2,070,405	2,856,795
FUND BALANCE - BEGINNING	18,437,476	25,904,136	5,661,357	50,002,969
FUND BALANCE - ENDING	<u>\$ 18,852,401</u>	<u>\$ 26,275,601</u>	<u>\$ 7,731,762</u>	<u>\$ 52,859,764</u>

See accompanying notes to the basic financial statements

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

Net change in fund balances - total governmental funds:	\$	2,856,795
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
<p>The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.</p>		
This is the amount by which capital outlays (\$10,121,606) were less than depreciation (\$1,564,887) in the current period.		8,556,719
<p>Vested employee benefits are reported in the government funds when amounts are paid. The Statement of Activities reports the value of benefits earned during the year.</p>		
Net Decrease in Net OPEB Asset		(571,845)
Net Increase in Compensated Absences		(346,866)
Decrease in Net Pension Stipend Asset		(32,081)
Net Increase in Termination Benefits		(75,300)
<p>Proceeds from issuing long-term debt are reported as revenue in the governmental funds but increase long term liabilities in the statement of net position.</p>		
		(10,000,000)
<p>Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the Statement of Net Position and does not affect the Statement of Activities.</p>		
The amount of long-term debt principal payments in the current year is:		3,115,000
The amount of capital lease principal payments in the current year is:		105,744
<p>Governmental funds report the effect of premiums when debt is first issued. However, the premium on long-term debt is shown as a liability in the Statement of Net Position and is amortized.</p>		
		26,108
<p>In governmental funds interest payments on outstanding debt are reported as an expenditure when paid. In the Statement of Activities interest is reported as incurred.</p>		
Change in amount of accrued interest not reflected on Governmental Funds		(287,213)
<p>Pension expense reported in the governmental funds represents current year required contributions into the defined benefit pension plan. Pension expense in the Statement of Activities is actuarially determined by the defined benefit pension plan as the difference between the net pension asset from the prior year to the current year, with some adjustments.</p>		
Amount of current year required contributions into the defined benefit pension plan		1,341,630
Actuarially determined change in net pension asset between years, with some adjustments		(2,743,187)
Change in net position of governmental activities	<u>\$</u>	<u>1,945,504</u>

See accompanying notes to the financial statements.

**DEFOREST AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016**

	<u>Private Purpose Trust Fund</u>	<u>Other Post- Employment Benefit Trust</u>	<u>Total</u>	<u>Agency Funds Pupil Activity Fund</u>
	<u>Scholarship Fund</u>	<u>Benefit Trust</u>		<u>Fund</u>
ASSETS				
Cash and Investments	\$ 331,152	\$ 4,155,884	\$ 4,487,036	\$ 141,784
Accounts Receivable	-	-	-	989
TOTAL ASSETS	<u>\$ 331,152</u>	<u>\$ 4,155,884</u>	<u>\$ 4,487,036</u>	<u>\$ 142,773</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ 10,246
Due to Other Funds	-	761,360	761,360	-
Due to Student Organizations	-	-	-	132,527
Total Liabilities	<u>-</u>	<u>761,360</u>	<u>761,360</u>	<u>142,773</u>
NET POSITION				
Restricted	331,152	3,394,524	3,725,676	-
Total Net Position	<u>331,152</u>	<u>3,394,524</u>	<u>3,725,676</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 331,152</u>	<u>\$ 4,155,884</u>	<u>\$ 4,487,036</u>	<u>\$ 142,773</u>

See accompanying notes to the basic financial statements

DEFOREST AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
TRUST FUNDS
For the Year Ended June 30, 2016

	Private Purpose Trust Fund	Other Post- Employment Benefit Trust	Total
	Scholarship Fund		
ADDITIONS			
Employer Contributions	\$ -	\$ 682,946	\$ 682,946
Employee Contributions	-	61,067	61,067
Other Contributions	31,906	-	31,906
Interest and Dividends	10,363	11,566	21,929
TOTAL ADDITIONS	42,269	755,579	797,848
DEDUCTIONS			
Scholarship Payments	16,500	-	16,500
Benefit Payments	-	813,360	813,360
TOTAL DEDUCTIONS	16,500	813,360	829,860
Change in Net Position	25,769	(57,781)	(32,012)
NET POSITION - BEGINNING	305,383	3,452,305	3,757,688
NET POSITION - ENDING	\$ 331,152	\$ 3,394,524	\$ 3,725,676

See accompanying notes to the basic financial statements

NOTES TO FINANCIAL STATEMENTS

DEFOREST AREA SCHOOL DISTRICT
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June 30, 2016

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**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies

The accounting policies of the DeForest Area School District ("District") conform to generally accepted accounting principles as applicable to governmental units. The accepted standard setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

This report includes all of the funds of the District. The reporting entity for the District consists of: (a) the primary government; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization, or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. This report does not contain any component units.

B. District-Wide and Fund Financial Statements

District-wide Statements:

The Statement of Net Position and Statement of Activities present financial information about the District as a whole. These statements include the financial activities of the overall government in its entirety, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. The District does not report any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function or segment. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

B. District-Wide and Fund Financial Statements (Continued)

Fund Financial Statements:

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund equity, revenues, and expenditures. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Funds are organized as major funds or nonmajor funds within the governmental fund statements. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures of the individual governmental fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental fund that the District believes is particularly important to financial statement users may be reported as a major fund.

The District reports the following major governmental funds:

General Fund - Accounts for the District's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund. The Special Education Fund, a subset of the General Fund, accounts for resources legally restricted to supporting expenditures for the special education program as required by the Wisconsin Department of Public Instruction.

Capital Projects Fund - Accounts for the District's unspent bond proceeds related to the 2015 and 2016 General Obligation School Building and Improvement Bonds.

The District reports the following non-major governmental funds:

Special Revenue Funds - Used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted or assigned to expenditures for specified purposes:

- Donations/Gifts
- Food Service
- Community Service
- Packaged Services

Debt Service Funds- Used to account for the accumulation of resources for, and the payment of, general long-term debt principal (nonreferendum and referendum), interest, and related costs.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

B. District-Wide and Fund Financial Statements (Continued)

Capital Projects Funds - These funds account for the resources restricted for specific capital projects:

Capital Expansion Fund
Capital Projects Trust Fund

In addition, the District reports the following fund types:

Private Purpose Trust Funds - Used to report any trust arrangement not properly reported in a pension trust fund under which principal and income benefit individuals, private organizations, or other governments.

Post-Employment Benefit Trust Fund - This trust is used to report resources that are required to be held in trust for the members and beneficiaries of the District's other post-employment benefit plan.

Agency Funds - Used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Financial Statements:

The district-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash transaction takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fund Financial Statements:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both 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 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources. Interest cost on temporary borrowing is recognized as an expenditure of the fiscal period incurred. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables.

Property taxes are recognized in the fiscal year levied. Property taxes are collected by local taxing districts until January 31. Real estate tax collections after that date are made by the county, which assumes all responsibility for delinquent real estate taxes. Full receipt of the entire levy is assured within 60 days of the District's fiscal year-end.

The aggregate amount of property taxes to be levied for District purposes is determined according to provisions of Chapter 120 of the Wisconsin Statutes. Property taxes levied by the District are certified to local taxing districts for collection. Property taxes attach as an enforceable lien as of January 1. Taxes are levied in December on the assessed value as of the prior January 1.

Property tax calendar- 2016 tax roll:

Lien date and levy date	December 2015
Tax bills mailed	December 2015
Payment in full, or	January 31, 2016
First installment due	January 31, 2016
Second installment due	July 31, 2016
Tax deed- 2016 delinquent real estate taxes	October 2018

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

State general and categorical aids, federal impact aid, and other entitlements are recognized as revenue in the period the District is entitled to the resources and the amounts are available. Expenditure-driven programs currently reimbursable are recognized as revenue when the qualifying expenditures have been incurred and the amounts are available. Amounts owed to the District which are not available are recorded as receivables and deferred inflows of resources. Amounts received prior to the entitlement period are also recorded as deferred inflows of resources.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, expenditure driven grant programs, public charges for services, and investment income.

Charges for services provided to other educational agencies and private parties are recognized as revenue when services are provided. Charges for special educational services are not reduced by anticipated state special education aid entitlements.

The District reports unearned revenues on its governmental funds balance sheet. For governmental fund financial statements, unearned revenues arise resources are received before the District has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when the District has a legal claim to the resources, the deferred inflows for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting and do not have a measurement focus.

All Financial Statements:

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

D. Deposits and Investments

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

The District has pooled the cash resources of its funds in order to maximize investment opportunities. Each fund's portion of total cash and investments is reported as cash and cash equivalents/investments by the District's individual major funds, and in the aggregate for non-major and agency funds.

See footnote 3 for additional information.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

E. Receivables and Payables

Taxes

The aggregate District tax levy is apportioned and certified during the current fiscal year for collection to comprising municipalities based on the immediate past August 15 full or "equalized" taxable property values. As permitted by a collecting municipality's ordinance, taxes may be paid in full or two or more installments with the first installment payable the subsequent January 31 and a final payment no later than the following July 31.

On or before January 15 and February 15, the District is paid by the collecting municipalities its proportionate share of tax collections received through the last day of the preceding month. On or before August 20, the county treasurer makes full settlement to the District for any remaining balance.

Interfunds

During the course of operations transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Advances between funds are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Accounts Receivable

All accounts receivable are shown as gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance is not material.

F. Other Assets

Expendable supplies or noncapital items acquired for initial use in subsequent fiscal periods are recorded as inventories and/or prepaid expenses. Prepaid insurance or service contracts are not recorded unless their recognition as an expenditure would result in more than one year's cost being recorded. Inventory and prepaid supplies are valued at the lower of cost (first-in, first-out method) or market. Inventory consists of expendable supplies held for consumption. Costs are recorded as expenditures at the time individual inventory items are consumed.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets

District-Wide Statements

Capital assets, which include property, plant, and equipment, are reported in the districtwide financial statements. Capital assets are defined by the District as assets with an initial cost of more than \$1,000 for general capital assets and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Estimated Useful Life</u>
Land Improvements	10-20 years
Buildings	25-50 years
Equipment and Vehicles	5-20 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

H. Long-Term Obligations

All long-term obligations to be repaid from governmental resources are reported as a liability in the district-wide statements. The long-term obligations consist primarily of notes, bonds or loans payable, capital leases, and accrued compensated absences. Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debt (plus any premiums) is reported as other financing sources and payments of principal and interest are reported as expenditures. For the district-wide statements, bond premiums and discounts are amortized over the life of the issue using the effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year-end for premiums/discounts is shown as an increase or decrease in the liability section of the Statement of Net Position. Gains or losses on refunding are reported as deferred inflows of resources or deferred outflows of resources, respectively.

I. Vested Employee Benefits

Termination Benefit

The District is providing certain employees with negotiated termination benefits upon separation from the District. Termination benefits paid during the year were \$60,250 and a remaining benefit of \$75,300 is accrued in the government-wide financial statements that is schedule to be paid in July 2017.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

I. Vested Employee Benefits (Continued)

Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits expected to be paid are considered vested and are disclosed in these statements.

The District's policy allows administrators to earn varying amounts of sick leave for each year employed. The amount considered vested at June 30, 2016 is \$445,437.

The District's policy allows teachers to earn varying amounts of sick leave for each year employed. Upon retirement these employees are entitled to convert the unused sick leave at 80% of their per diem rate at retirement to pay for health insurance until the vested amount is exhausted. The amount considered vested at June 30, 2016 is \$1,336,544 for retirees and \$1,941,309 for currently active teachers.

The District's policy allows support staff to earn varying amounts of sick leave for each year employed. Upon retirement, these employees are entitled to a payout of unused sick leave. The amount considered vested at June 30, 2016 is \$145,085.

In certain circumstances, the District's policy allows employees to carryover up to 40 hours of vacation into the next year. The amount considered vested at June 30, 2016 is \$113,336.

All vested vacation and sick leave pay is accrued when incurred in the district-wide fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at June 30, 2016 are determined on the basis of current salary rates and include salary related payments.

Other Postemployment Benefits

As provided in applicable negotiated contracts, qualified employees meeting minimum age and length of service requirements may be eligible for certain other postemployment benefits directly from the District. Employees that choose not to participate in the medical plan during their retirement will instead receive a cash benefit in lieu of such coverage.

Other Pension Benefits – Supplemental Stipend

The District has one former employee that is receiving a stipend benefit in retirement. The total maximum payout will not exceed \$250,000 payable over 5 years. The District has trust funds set aside for this benefit which is considered fully funded. As of June 30, 2016 the District anticipates future payments to be \$87,333.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

J. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Wisconsin Retirement System (WRS) and the Stipend Plan and additions to/deductions from WRS' and the Stipend Plans' fiduciary net positions have been determined on the same basis as they are reported by WRS and the Stipend Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenditure) until then. The District has one item that qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. The District has two items that qualify for reporting in this category.

L. Equity Classifications

District-Wide Statements

Equity is classified as net position and displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted net position* - Consists of net position with constraints placed on the use either by: 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* - All other net positions that do not meet their definition of "restricted" or "invested in capital assets, net of related debt."

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

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

L. Equity Classifications (Continued)

Fund Statements

In the governmental fund financial statements, governmental funds report *nonspendable* fund balance for amounts that cannot be spent because they are either:

- a. Not in spendable form; or
- b. Legally or contractually required to be maintained intact.

Restricted fund balance is reported when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation.

Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District board.

Assigned fund balance is reported for amounts that are constrained by the District management's intent to be used for specific purposes, but is neither restricted nor committed.

Unassigned fund balance is the residual classification for the General Fund.

When committed, assigned, and unassigned amounts are available for use, it is the District's policy to use committed resources first, then assigned resources, then unassigned resources as they are needed.

Fiduciary fund equity is classified as held in trust for scholarships or retiree health benefits. Various donor restrictions apply, including authorizing and spending trust income, and the District believes it is in compliance with all significant restrictions.

M. Budgets

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1.C.

Operating budgets are adopted each fiscal year for all governmental funds in accordance with Section 65.90 of the Wisconsin Statutes. The legally adopted budget and budgetary expenditure control is exercised at the two-digit sub-function level in the General Fund and at the function level for all other funds. Reported budget amounts are as amended by the District Board resolution.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

N. Claims and Judgements

Claims and judgments are recorded as liabilities if all the conditions of GASB pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the district-wide financial statements as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

O. Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. Explanation of Certain Differences Between Governmental Fund Statements and District-wide Statements

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

Explanation of Differences Between Governmental Funds Statement of Revenues, Expenditures And Changes in Fund Balances and the Statement of Activities

Differences between the governmental funds statement of revenues, expenditures and changes in fund balances and the statement of activities fall into one of four broad categories:

- a. Long-term revenue differences arise because governmental funds report revenues only when they are considered "available," whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities.
- b. Capital related differences include the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.
- c. Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest expense is recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.
- d. Payments to retired employees for post-employment benefits are recorded when paid in the fund financial statements. Expenses are recorded in the Statement of Activities when incurred. Payments to retired employees reduce the post-employment liabilities.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

3. Deposits and Investments

Investments Authorized by Wisconsin Statutes

Investment of District funds is restricted by State Statutes. Available investments are limited to:

- a. Time deposits in any credit union, bank, savings bank, or trust company authorized to transact business in the state, maturing in three years or less.
- b. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority or the Wisconsin Aerospace Authority.
- c. Bonds or securities issued or guaranteed by the federal government.
- d. The local government investment pool.
- e. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- f. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- g. Repurchase agreements with public depositories, with certain conditions.

The District has adopted an investment policy. That policy follows the State Statute for allowable investments. The investment policy does not address the following risks:

- Custodial Credit Risk
- Credit Risk
- Interest Rate Risk
- Concentration of Credit Risk

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of District funds is allocated to the General Fund. Amounts allocated to the General Fund but earned by other funds are not material.

The Wisconsin Investment Series Cooperative is an investment pool established by an intergovernmental agreement. The pool invests in investments legally permissible under Wisconsin law.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

3. Deposits and Investments (Continued)

For all the District's cash and investments shown below, the market value at the balance sheet date is substantially the same as the fair value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the District's deposits were higher than the June 30, 2016 balances, detailed below. This means that the District's risk and exposure could be higher at these times.

	Carrying Value	Fair Value	Associated Risks
Petty Cash	\$ 1,575	\$ -	N/A
Deposits	22,509,359	23,364,897	Custodial Credit
Investments			
Local Government Investment Pool	4,961,147	4,961,147	Credit/Interest Rate
WISC Cash Management Series	498,517	498,517	Credit
WISC Investment Series	253,120	253,120	Credit
Government Securities	1,100,915	1,100,915	Credit/Interest Rate
Certificates of Deposit	27,529,330	27,529,330	Custodial Credit/Interest Rate
Mutual Fund	27,398	27,398	Credit
Stock	129,540	129,540	
Total June 30, 2016	<u>\$57,010,901</u>	<u>\$57,864,864</u>	

A reconciliation of cash and investments as shown on the statements is as follows:

Statement of Net Position	
Governmental Activities	\$52,382,081
Statement of Fiduciary Net Position	
Trust funds	4,487,036
Agency fund	<u>141,784</u>
Total Cash and Investments	<u>\$57,010,901</u>

The WISC investments consist of the following:

Money Market Accounts	\$ 751,637
Savings Deposit Accounts	9,055,873
Debt Securities	1,100,915
CDs	<u>17,898,429</u>
Total WISC Investments	<u>\$28,806,854</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

3. Deposits and Investments (Continued)

The Wisconsin Local Government Investment Pool (“LGIP”) is part of the State Investment Fund (“SIF”), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. All investments are valued at amortized cost by the SIF for purposes of calculating earnings to each participant. Specifically, the SIF distributes income to pool participants monthly, based on their average daily share balance. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method does not distribute to participants any unrealized gains or losses generated by the pool’s investments. Detailed information about the SIF is available in separately issued financial statements available at <http://www.doa.state.wi.us/Divisions/Budget-and-Finance/LGIP>. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At June 30, 2016, the fair value of the District's share of the LGIP's assets was substantially equal to the amount as reported in these statements. Certificates of deposit held in the LGIP are covered by FDIC insurance, which applies to the proportionate public unit share of accounts.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater sensitivity its fair value has to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure of fair value losses arising from increasing interest rates. Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity. The LGIP investments have an average maturity of 67 days.

<u>Investment Type</u>	<u>Investment Maturities</u>			
	<u>Fair Value</u>	<u>Less Than 6 Months</u>	<u>6 Months to 1 Year</u>	<u>1 Year to 5 Years</u>
Certificates of Deposit	\$ 27,529,330	\$ 16,550,392	\$ 6,986,368	\$ 3,992,570
Government Securities	1,100,915	-	1,100,915	-
Local Government Investment Pool	4,961,147	4,961,147	-	-
Total	<u>\$ 33,591,392</u>	<u>\$ 21,511,539</u>	<u>\$ 8,087,283</u>	<u>\$ 3,992,570</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

3. Deposits and Investments (Continued)

Credit Risk

Generally, Credit risk is the risk that an issuer or other counterparty of an investment will not fulfill its obligations to the holder of the investment. State law limits investments in commercial paper, corporate bonds and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. As of June 30, 2016, the District's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Composite</u>
Mutual Fund - Riversource Diversified Bond Fund Class A	\$ 27,398	AA
WISC Cash Management Series	498,517	AAAm
WISC Investment Series	253,120	AAAm
Government Securities -Federal Home Loan Bank Note	1,100,915	AAA
Local Government Investment Pool	<u>4,961,147</u>	Not Rated
Total fair value of investments subject to credit risk	<u>\$ 6,841,097</u>	

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District would not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial risk for investments is the risk that, in the event of failure of the counterparty (e.g. broker-dealer) to a transaction, the District would not be able to recover the value of its investment of collateral securities that are in the possession of another party. Wisconsin Statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The District does not have an additional custodial credit policy.

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts and \$250,000 for demand deposit accounts. Bank accounts and the local government investment pool are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. Due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities.

As of June 30, 2016, the District's deposits with financial institutions were exposed to custodial credit risk as follows:

Collateralized in the District's Name	\$17,353,345
Uninsured and Uncollateralized	<u>4,146,193</u>
Total	<u>\$21,499,538</u>

Fluctuating cash flows during the year due to tax collections, receipt of state aids and proceeds from borrowing may have resulted in temporary balances exceeding uninsured amounts at the balance sheet date.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

4. Fair Value Measurement

Financial assets required to be measured on a recurring basis are classified under a three-tier hierarchy for fair value investments. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurements date.

The District uses the following hierarchical disclosure framework:

Level 1 – Measurement based upon quoted prices for identical assets in an active market as of the reporting date.

Level 2 – Measurement based upon marketplace inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Measurement based on the District’s assumptions about a hypothetical marketplace because observable market inputs are not available as of the reporting date.

The District uses appropriate valuation techniques based on the available inputs to measure the fair values of its assets and liabilities. When available, the District measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs have the lowest priority.

Assets at Fair Value as of June 30, 2016

	Fair Value	Level 1	Level 2	Level 3
Money Market Accounts	\$ 751,637	\$ -	\$ 751,637	\$ -
Government Securities	1,100,915	-	1,100,915	-
Certificate of Deposit	17,898,429	-	17,898,429	-
Savings Deposit Accounts	9,055,872	-	9,055,872	-
Mutual Fund	27,398	-	27,398	-
Stock	129,540	-	-	129,540
Totals	<u>\$28,963,791</u>	<u>\$ -</u>	<u>\$28,834,251</u>	<u>\$ 129,540</u>

Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. Stock classified in Level 3, due to lack of an independent pricing source, are valued by the investment manager.

5. Receivables and Unearned Revenue

All receivables of the District are expected to be collected within one year. Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the District reported deposits of \$39,365 for food service payment card balances.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

6. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 8,143,382	\$ -	\$ -	\$ 8,143,382
Construction in progress	-	9,714,558	-	9,714,558
Total capital assets not being depreciated	<u>8,143,382</u>	<u>9,714,558</u>	<u>-</u>	<u>17,857,940</u>
Capital assets being depreciated				
Land improvements	2,134,410	38,940	-	2,173,350
Buildings	57,122,403	-	-	57,122,403
Equipment and vehicles	6,971,912	368,108	38,161	7,301,859
Total capital assets being depreciated	<u>66,228,725</u>	<u>407,048</u>	<u>38,161</u>	<u>66,597,612</u>
Accumulated depreciation				
Land improvements	(1,642,275)	(41,097)	-	(1,683,372)
Buildings	(20,218,315)	(1,165,210)	-	(21,383,525)
Equipment and vehicles	(4,253,876)	(358,580)	(38,161)	(4,574,295)
Total accumulated depreciation	<u>(26,114,466)</u>	<u>(1,564,887)</u>	<u>(38,161)</u>	<u>(27,641,192)</u>
Capital assets being depreciated, net of accumulated depreciation	<u>40,114,259</u>	<u>(1,157,839)</u>	<u>-</u>	<u>38,956,420</u>
Total capital assets, net of depreciation	<u>\$ 48,257,641</u>	<u>\$ 8,556,719</u>	<u>\$ -</u>	<u>\$ 56,814,360</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

6. Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Instruction		
Regular	\$	79,760
Vocational		3,579
Special education		2,221
Support services		
Pupil services		1,023
Instructional support services		2,078
General administration services		1,626
Building administration		1,236
Business administration	1,086,699	
Operatoins and maintenance of plant services		274,955
Pupil transportation services		7,980
Central services		79,863
Food service		12,119
Other support service		9,150
Community services		<u>2,598</u>
Total depreciation expense	\$	<u>1,564,887</u>

7. Long-Term Obligations

Long-term obligations activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<u>General Obligation Debt</u>					
Governmental Activities					
G.O. Bonds	\$38,530,000	\$10,000,000	\$ 3,115,000	\$ 45,415,000	\$ 2,485,000
Total governmental activity long-term liabilities	38,530,000	10,000,000	3,115,000	45,415,000	2,485,000
Deferred amounts for premium	2,669,373	166,138	192,246	2,643,265	194,012
Capital Leases	130,683	-	105,744	24,939	24,939
Termination Benefit	-	135,550	60,250	75,300	75,300
Compensated Absences	3,634,844	346,866	-	3,981,710	991,315
Total Long-Term Debt	<u>\$44,964,900</u>	<u>\$10,648,554</u>	<u>\$ 3,473,240</u>	<u>\$ 52,140,214</u>	<u>\$ 3,770,566</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

7. Long-Term Obligations (Continued)

Total interest paid and accrued during the year:

	Expense	Paid
Long Term Debt	\$ 1,395,822	\$ 1,108,612

General Obligation Debt

All general obligation bonds and notes payable are backed by the full faith and credit and unlimited taxing powers of the District. Notes and bonds in the governmental funds will be retired by future property tax levies of the Debt Service Fund. General Obligation Debt at June 30, 2016 is comprised of the following individual issues:

Description	Issue Dates	Interest Rate %	Dates of Maturity	Original Indebtedness	Balance 6/30/2016	Amount Due Within One Year
GO Refunding Bonds	1/11/2012	2.0%	4/1/2017	\$ 4,305,000	\$ 415,000	\$ 415,000
GO Refunding Bonds	1/7/2014	2.0%	4/1/2020	7,940,000	7,705,000	100,000
GO Refunding Bonds	2/3/2014	1.0-2.0%	4/1/2017	5,890,000	1,970,000	1,970,000
GO School Improvement Bonds	6/17/2015	3.4-5.0%	4/1/2035	26,000,000	25,325,000	-
GO School Improvement Bonds	4/4/2016	2.0-3.0%	4/1/2036	10,000,000	10,000,000	-
Total General Obligation Debt					\$45,415,000	\$2,485,000

The 2015 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$2,125,152,573. The legal debt limit and margin of indebtedness as of June 30, 2016, in accordance with §67.03(1)(b) of the Wisconsin statutes follows:

Debt Limit (10% of \$2,125,152,573)	\$ 212,515,257
Deduct long-term debt applicable to debt margin	45,415,000
Margin of indebtedness	\$ 167,100,257

Aggregate cash flow requirements for the retirement of long-term principal and interest as of June 30, 2016 are as follows

Year Ended June 30,	Principal	Interest
2017	\$ 2,485,000	\$ 1,515,691
2018	2,475,000	1,467,912
2019	2,535,000	1,418,413
2020	2,595,000	1,367,713
2021	-	1,315,813
2022-2026	7,435,000	6,424,660
2027-2031	11,080,000	4,707,813
2032-2036	16,810,000	2,040,163
Totals	\$ 45,415,000	\$20,258,178

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

7. Long-Term Obligations (Continued)

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. The District believes it is in compliance with all significant limitations and restrictions, including federal arbitrage regulations.

Capital Lease

In July 2015, the District entered into a capital lease agreement for the purchase of computer equipment. Assets purchased under the capital lease totaled \$74,872 and is to be repaid in annual installments through July of 2017. The future minimum lease payments and the net present value of minimum lease payments as of June 30, 2016 were as follows:

Year Ended June 30,		
2017	\$	26,141
Total minimum lease payments		26,141
Less: Amount representing interest		1,202
Present value of net minimum lease payments	\$	24,939

8. Defined Benefit Pension Plan

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

Accounting Changes. The WRS adopted GASB Statement No. 82, Pension Issues, an amendment of GASB No. 67, No. 68, and No. 73 during the year ended December 31, 2015. Statement No. 82 addresses the presentation of payroll-related measures in the Required Supplementary Information, the selection of assumptions used in determining the total pension liability and related measures, and the classification of employer-paid member contributions.

Vesting. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

8. Defined Benefit Pension Plan (Continued)

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

Post-Retirement Adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2006	0.8	3
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

8. Defined Benefit Pension Plan (Continued)

During the reporting period, the WRS recognized \$1,341,630 in contributions from the employer.

Contribution rates as of June 30, 2016 are:

Employee Category	Employee	Employer
General (including teachers)	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the District reported a liability of \$2,275,883 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the District's proportion was 0.14005602%, which was a decrease of 0.00136334% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$2,742,553. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 388,763	\$ (4,789,557)
Changes of assumptions	1,592,307	-
Net difference between projected and actual earnings on pension plan investments	9,330,284	-
Changes in proportion and difference between District contributions and proportionate share of contributions	-	(4,938)
District contributions subsequent to the measurement date	823,808	-
Total	\$ 12,135,162	\$ (4,794,495)

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

8. Defined Benefit Pension Plan (Continued)

\$823,808 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 2,937,900	\$ (1,160,482)
2018	2,937,900	(1,160,482)
2019	2,937,900	(1,160,482)
2020	2,446,713	(1,159,783)
2021	50,941	(153,265)

Actuarial assumptions. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability (Asset):	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-Retirement Adjustments*	2.1%

* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate. Starting with 2015, this item includes the impact of know Market Recognition Account deferred gains/losses on the liability for dividend payments.

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

8. Defined Benefit Pension Plan (Continued)

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

Retirement Funds								
Asset Allocation Targets and Expected Returns								
As of December 31, 2015								
<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>		<u>Destination Target Asset Allocation %</u>		<u>Long-Term Expected Nominal Rate of Return %</u>		<u>Long-Term Expected Real Rate of Return %</u>	
U.S. Equities	27	%	23	%	7.6	%	4.7	%
International Equities	24.5		22		8.5		5.6	
Fixed Income	27.5		37		4.4		1.6	
Inflation Sensitive Assets	10		20		4.2		1.4	
Real Estate	7		7		6.5		3.6	
Private Equity/Debt	7		7		9.4		6.5	
Multi-Asset	4		4		6.7		3.8	
Total Core Fund	107	%	120	%	7.4	%	4.5	%
 <u>Variable Fund Asset Class</u>								
U.S. Equities	70	%	70	%	7.6	%	4.7	%
International Equities	30		30		8.5		5.6	
Total Variable Fund	100	%	100	%	7.9	%	5.0	%
<p>New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75% Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations</p>								

Single Discount rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.57%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) 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.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

8. Defined Benefit Pension Plan (Continued)

Sensitivity of the District's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
District's proportionate share of the net pension liability (asset)	\$ 15,963,088	\$ 2,275,883	\$ (8,414,068)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

9. Post-Employment Benefits Other Than Pensions

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future years when it is paid. In adopting the requirements of GASB Statement No. 45, the District recognizes the cost of postemployment healthcare in the year when the employee services are received, report the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows.

The District administers a single-employer defined benefit health care plan (the Retiree Health Plan). The plan provides health insurance contributions for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retirees members. There are 291 active members in the plan and 57 retired members in the plan. Benefit provisions are determined and may be amended by the Board of Education. Benefits are not negotiated through a collective bargaining agreement.

Teachers working for the District prior to July 1, 1995 may receive health insurance contributions for a period of five years at the health insurance rate at the time of retirement in lieu of an option to use a sick leave conversion to apply to monthly health, dental, and/or life insurance premiums (see Note 1.J. for disclosure of the District's liability). Teachers employed on or after July 1, 1995 have the option of converting sick leave at 80% of the per diem rate at the time of retirement. The District makes the same monthly contribution on behalf of the retiree as it makes on behalf of all other teachers if retirement took place prior to July 1, 2012. The District contributes 90% for a family or single plan. One administrator has an individually negotiated benefit wherein the District will pay health and dental premiums for five years. The Retiree Health Plan does not issue a publicly available financial report.

For fiscal year 2016, the District contributed \$682,946 to the plan. Plan members receiving benefits contributed 10% of their premium costs for a family plan and a single plan. For fiscal year 2016, total member contributions were \$61,067.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

9. Post-Employment Benefits Other Than Pensions (Continued)

The DeForest Area School District Post-Employment Benefits Trust was created by the District on November 8, 2008 to fund a portion of the costs of the OPEB liabilities. Distributions from the Trust in any year are limited to the amount of contributions the District has made to the Trust for that year plus a portion of the investment gains of the assets of the Trust. The District has the authority to permit Trust assets to accumulate from year to year in order to reduce future District funding obligations, or the District may exercise its discretion to withdraw in any year an amount not to exceed the limitation specified above.

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

	Governmental Activities
Annual required contribution	\$ 382,964
Interest on net OPEB obligation	(259,342)
Adjustment to annual required contribution	1,131,169
Annual OPEB cost (expense)	1,254,791
Contribution made	(682,946)
Change in net OPEB obligation	571,845
OPEB obligation (asset) at beginning of year	(5,293,679)
OPEB obligation (asset) at end of year	\$ (4,721,834)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending June 30, 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2014	\$ 563,074 *	234.10% *	\$(3,473,137) *
6/30/2015	599,109 *	307.34% *	(4,715,300) *
6/30/2016	676,412	100.97%	(4,721,834)

*Adjustment reflected to exclude plan member contributions. Beginning obligation (asset) has been adjusted.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

9. Post-Employment Benefits Other Than Pensions (Continued)

The funded status of the OPEB benefit as of the most recent actuarial valuation date (July 1, 2014) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
7/1/2014	\$2,124,934	\$3,830,682	\$1,705,748	55.47%	\$10,007,913	17.04%

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing 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. Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	7/1/2014
Actuarial cost method	Entry Age Normal (Level % of Salary
Amortization method	10 year open level dollar
Remaining amortization period	10 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	5.50%
Projected payroll increases	3.00%
	7.50% decreasing by 0.50% each year down to 6.50%, then by
Medical care trend*	0.10% each year down to 5.0%, and level thereafter
Dental care trend*	Level at 5.00%

* Implicit in this rate is an assumed rate of inflation of 3.00%

A copy of the actuarial report can be obtained from the District office.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

10. Fund Balances / Net Position

Fund Balances

The following is a detailed schedule of ending fund balances as reported in the fund financial statements by category:

	General Fund	Debt Service Fund	Special Revenue Funds	Capital Projects Funds	Total
Fund balances:					
<u>Nonspendable:</u>					
Prepays	\$ 83,454	\$ -	\$ -	\$ -	\$ 83,454
<u>Restricted for:</u>					
Debt Service Retirement	-	2,662,607	-	-	2,662,607
Capital Projects	-	-	-	30,652,742	30,652,742
Food Services	-	-	520,084	-	520,084
Community Services	-	-	71,706	-	71,706
Special Revenue Trust	-	-	100,224	-	100,224
Total Restricted	-	2,662,607	692,014	30,652,742	34,007,363
<u>Assigned for:</u>					
Programs	63,477	-	-	-	63,477
<u>Unassigned:</u>	18,705,470	-	-	-	18,705,470
Total Fund Balances	<u>\$18,852,401</u>	<u>\$2,662,607</u>	<u>\$ 692,014</u>	<u>\$30,652,742</u>	<u>\$52,859,764</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

10. Fund Balances / Net Position (Continued)

Net Position

Net position reported on the district-wide Statement of Net Position at June 30, 2016 includes the following:

Capital Assets Net of Depreciation	\$56,814,360	
Less: Related Long-term Debt Outstanding	(45,415,000)	
Plus: Unspent Bond Proceeds	<u>28,938,208</u>	
Total Net Investment in Capital Assets	<u>40,337,568</u>	
Restricted		
Capital Projects	4,377,141	
Debt Service	2,286,460	
Food Service	520,084	
Community Service	71,706	
Donations	100,224	
OPEB Asset	<u>4,721,834</u>	
Total Restricted	<u>12,077,449</u>	
Unrestricted	<u>14,529,249</u>	
Total Governmental Activities Net Position	<u>\$66,944,266</u>	

11. Interfund Balances and Activity

Due to / Due from Other Funds

Interfund receivable and payable balances in the fund financial statements on June 30, 2016 are as follows:

Due To	Amount	Due From
General Fund	\$ 761,360	Private Benefit Trust Fund
Capital Improvement Trust Fund	1,350,000	General Fund
General Fund	<u>1,316</u>	Package Cooperative
Total-Fund Financial Statements	2,112,676	
Less: Fund Eliminations	<u>(1,351,316)</u>	
Total District-Wide Statement of Net Position	<u>\$ 761,360</u>	

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

11. Interfund Balances and Activity (Continued)

Transfers

The District had the following interfund transfers:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Improvement Project	Capital Improvement Trust	General Fund	\$ 1,350,000
Operating Transfer	General Fund	Package Cooperative	<u>3,002</u>
			<u>\$ 1,353,002</u>

12. Limitation of School District Revenues

Wisconsin statutes limit the amount of revenues that school districts may derive from general school aids and property taxes unless a higher amount is approved by a referendum. This limitation does not apply to revenues needed for the payment of any general obligation debt service (including refinanced debt) authorized by either of the following:

- A resolution of the school board or by a referendum prior to August 12, 1993.
- A referendum on or after August 12, 1993.

13. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; worker's compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded insurance coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

14. Commitments and Contingencies

From time to time, the District becomes party to claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the District's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the District's financial position.

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

14. Commitments and Contingencies (Continued)

Construction Commitments

As of June 30, 2016 the District had the following construction commitments:

	Total Contract Commitments	Expenditures Incurred Through June 30, 2016
Eagle Point Elementary School	\$ 13,061,229	\$ 2,122,135
Winsor Elementary School	13,297,203	3,201,019
DeForest High School	3,398,604	1,797,432
	<u>\$ 29,757,036</u>	<u>\$ 7,120,586</u>

15. Effect of New Accounting Standard of Current Period Financial Statements

The Government Accounting Standards Board (GASB) has approved GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statement 67 and 68*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. When they become effective, application of these standards may restate portions of these financial statements.

16. Subsequent Events

Debt Issued

In January 2017, the District issued \$5 million in general obligation promissory notes, which was the third and final debt obligations related to the referendum. The notes carry an interest rate of 1.99% with final maturity on October 1, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
BUDGET AND ACTUAL
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
	REVENUES			
Local Sources	\$ 18,406,529	\$ 18,004,282	\$ 18,078,556	\$ 74,274
Interdistrict Sources	840,000	817,645	868,695	51,050
Intermediate Sources	-	-	2,708	2,708
State Sources	17,939,730	17,649,349	17,678,783	29,434
Federal Sources	320,339	444,299	438,079	(6,220)
Other Sources	35,492	65,000	76,192	11,192
	<u>37,542,090</u>	<u>36,980,575</u>	<u>37,143,013</u>	<u>162,438</u>
EXPENDITURES				
Instruction:				
Regular Instruction	15,008,853	14,438,706	14,329,938	108,768
Special Education Instruction	246,107	238,745	236,815	1,930
Vocational Instruction	1,159,890	1,241,508	1,205,607	35,901
Other Instruction	1,515,441	1,522,305	1,545,167	(22,862)
Support Service:				
Pupil Services	1,227,903	1,199,866	1,179,389	20,477
Instructional Staff Services	2,561,577	2,718,288	2,673,335	44,953
General Administration Services	663,001	713,913	735,183	(21,270)
Building Administration Services	1,800,555	1,821,109	1,820,655	454
Business Administration	607,541	595,753	557,414	38,339
Operation and Maintenance	4,189,319	3,954,761	3,875,005	79,756
Pupil Transportation	1,166,030	1,241,108	1,247,030	(5,922)
Central Services	1,674,382	1,782,698	1,774,361	8,337
Insurance	289,650	317,787	316,350	1,437
Debt Principal and Interest	191,715	121,080	114,079	7,001
Other Support Services	562,999	302,939	303,891	(952)
Total Expenditures	<u>32,864,963</u>	<u>32,210,566</u>	<u>31,914,219</u>	<u>297,299</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,677,127</u>	<u>4,770,009</u>	<u>5,228,794</u>	<u>459,737</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	5,000	-	3,002	3,002
Transfers Out	(3,886,846)	(4,754,578)	(4,816,871)	(62,293)
Total Other Financing Sources and Uses	<u>(3,881,846)</u>	<u>(4,754,578)</u>	<u>(4,813,869)</u>	<u>(59,291)</u>
Net Change in Fund Balances	795,281	15,431	414,925	400,446
Fund Balances - Beginning	18,437,476	18,437,476	18,437,476	-
Fund Balances - Ending	<u>\$ 19,232,757</u>	<u>\$ 18,452,907</u>	<u>\$ 18,852,401</u>	<u>\$ 400,446</u>

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL EDUCATION FUND
BUDGET AND ACTUAL**

For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interdistrict	\$ 31,007	\$ 31,007	\$ -	\$ (31,007)
State Sources	1,230,000	1,230,000	1,268,012	38,012
Federal Sources	773,771	891,142	846,387	(44,755)
Total Revenues	<u>2,034,778</u>	<u>2,152,149</u>	<u>2,114,399</u>	<u>(37,750)</u>
EXPENDITURES				
Instruction:				
Special Education Instruction	4,024,322	4,303,290	4,204,673	98,617
Support Service:				
Pupil Services	841,316	865,507	768,693	96,814
Instructional Staff Services	332,937	371,529	329,429	42,100
Operation and Maintenance	26,000	40,061	37,046	3,015
Pupil Transportation	378,075	326,075	225,613	100,462
Central Services	8,240	12,065	11,662	403
Other Support Services	289,534	5,000	4,154	846
Total Expenditures	<u>5,900,424</u>	<u>5,923,527</u>	<u>5,581,270</u>	<u>342,257</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,865,646)</u>	<u>(3,771,378)</u>	<u>(3,466,871)</u>	<u>304,507</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	3,865,646	3,771,378	3,466,871	(304,507)
Total Other Financing Sources and Uses	<u>3,865,646</u>	<u>3,771,378</u>	<u>3,466,871</u>	<u>(304,507)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Deforest Area School District
Notes to the Budgetary Comparison Schedules
For the Year Ended June 30, 2016

NOTE 1

BUDGET SCHEDULE

Budgets are adopted each fiscal year for all funds in accordance with Section 65.90 of the Wisconsin Statutes, using budgetary accounting basis prescribed by the Wisconsin Department of Public Instruction, which is in accordance with generally accepted accounting principles. The legally adopted budget and budgetary expenditure control is exercised at the two-digit subfunction level for the general fund and at the one-digit function level for all other funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- Based upon requests from District staff, District administration recommends budget proposals to the School Board.
- The School Board prepares a proposed budget including proposed expenditures and the means of financing them for the July 1 through June 30 fiscal year.
- A public notice is published containing a summary of the budget and identifying the time and place where a public hearing will be held on the proposed budget.
- Pursuant to the public budget hearing, the School Board may make alterations to the proposed budget.
- Once the School Board (following the public hearing) adopts the budget, no changes may be made in the amount of tax to be levied or in the amount of the various appropriations and the purposes of such appropriations unless authorized by a 2/3 vote of the entire School Board.
- Appropriations lapse at year-end unless authorized as a carryover by the School Board. The portion of fund balance representing carryover appropriations is reported as an assigned fund balance.

The District is legally required by the State of Wisconsin to maintain and budget separately for a Special Education Fund. The Special Education Fund is combined with the General Fund in the basic financial statements. Due to the perspective differences in budgeting, the required supplementary information reports the budgetary comparison information separately for the General Fund and the Special Education Fund.

Except as noted in the previous paragraph, annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental and special revenue funds.

Appropriations lapse at year-end unless authorized as a carryover by the School Board.

NOTE 2

EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS

The following individual funds had functions that had an excess of actual expenditures over budget of \$5,000 or more for the year ended June 30, 2016.

Fund	Function	Amount
General Fund	Other Instruction	\$ 22,862
General Fund	General Administration Services	21,270
General Fund	Transfers	59,291

In each of the funds, the District had sufficient revenues, fund balance, other financial sources and/or expenditures less than the budget in other functions to support the amounts listed above. In total, General Fund expenditures were \$235,006 under budget and, in total, Special Education expenditures were \$342,257 under budget.

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**RECONCILIATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS
AND GAAP REVENUES AND EXPENDITURES
For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Special Education Fund</u>
A) Sources/Inflows of Resources:		
Actual amounts "total revenues" from the budgetary comparison schedules	\$ 37,143,013	\$ 2,114,399
Reclassification: Special education fund revenues are reclassified to the general fund, required for GAAP reporting	<u>2,114,399</u>	<u>(2,114,399)</u>
The general fund revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 39,257,412</u>	<u>\$ -</u>
B) Uses/Outflows of Resources:		
Actual amounts "total expenditures" from the budgetary comparison schedules	\$ 31,914,219	\$ 5,581,270
Reclassification: Special education fund expenditures are reclassified to the general fund, required for GAAP reporting	<u>5,581,270</u>	<u>(5,581,270)</u>
The general fund expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 37,495,489</u>	<u>\$ -</u>

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**SCHEDULE OF FUNDING PROGRESS
June 30, 2016**

Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll*	UAAL as a Percentage of Covered Payroll*
1/1/2010	\$ 300,020	\$5,484,837	\$5,184,817	5.47%	\$10,205,828	50.80%
7/1/2012	\$ 1,424,848	\$6,539,578	\$5,114,730	21.79%	\$9,803,259	52.17%
7/1/2014	\$ 2,124,934	\$3,830,682	\$1,705,748	55.47%	\$10,007,913	17.04%

*WRS Covered Payroll

**DEFOREST AREA SCHOOL DISTRICT
WISCONSIN RETIREMENT SYSTEM
June 30, 2016**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
AS OF THE MEASUREMENT DATE**

Last 10 Fiscal Years*

Year ended December 31,	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered- employee payroll	Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability (asset)
2015	0.14005602%	\$ 2,275,883	\$ 19,729,870	11.54%	98.20%
2014	-0.14141936%	(3,472,691)	19,620,368	(17.70%)	102.74%

* The proportionate share of the net pension liability (asset) and other amounts presented above for each year were determined as of the calendar year-end that occurred 6 months prior to the financial reporting period.

**SCHEDULE OF DISTRICT'S CONTRIBUTIONS
FOR THE YEAR ENDED**

Last 10 Fiscal Years**

Year ended June 30,	Contractually required contributions	Contributions in relation to the contractually required contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered- employee payroll
2016	\$ 1,353,424	\$ (1,353,424)	\$ -	\$ 20,270,397	6.68%
2015	1,350,898	(1,350,898)	-	19,639,708	6.88%

**The contribution and other amounts presented above for each fiscal year are based on information that occurred during that fiscal year.

**Notes to Required Supplementary Information
for the Year Ended June 30, 2016**

Governmental Accounting Standards Board Statement No. 68 requirements have been implemented

Changes of benefit terms. There were no changes of benefit terms for any participating employer in WRS.

Changes of assumptions. Rates used in mortality tables were updated based on actual WRS experience and adjusted for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%). The mortality table was adopted by the Board in connection with the 2012-2014 Experience Study. This assumption is used to measure the probabilities of participants dying before retirement and the probabilities of each benefit payment being made after retirement.

OTHER SUPPLEMENTARY INFORMATION

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016**

	<u>Special Revenue Funds</u>				<u>Total Nonmajor Special Revenue</u>	<u>Capital Project Fund</u>		<u>Total Nonmajor Capital Project</u>	<u>Debt Service</u>	<u>Total Nonmajor Funds</u>
	<u>Special Revenue Trust</u>	<u>Food Service</u>	<u>Community Service</u>	<u>Package Cooperative</u>		<u>Capital Expansion Fund</u>	<u>Capital Improvement Trust</u>		<u>Referendum</u>	
ASSETS										
Cash and Investments	\$ 163,167	\$ 559,465	\$ 81,090	\$ -	\$ 803,722	\$ -	\$ -	\$ -	\$ 2,662,722	\$ 3,466,444
Restricted Cash and Investments	-	-	-	-	-	2,766,778	260,363	3,027,141	-	3,027,141
Receivables:										
Accounts	-	1,464	488	1,559	3,511	-	-	-	-	3,511
Due from Other Funds	-	-	-	-	-	-	1,350,000	1,350,000	-	1,350,000
TOTAL ASSETS	<u>\$ 163,167</u>	<u>\$ 560,929</u>	<u>\$ 81,578</u>	<u>\$ 1,559</u>	<u>\$ 807,233</u>	<u>\$ 2,766,778</u>	<u>\$ 1,610,363</u>	<u>\$ 4,377,141</u>	<u>\$ 2,662,722</u>	<u>\$ 7,847,096</u>
LIABILITIES										
Accounts Payable	\$ 62,943	\$ 1,385	\$ 238	\$ 243	\$ 64,809	\$ -	\$ -	\$ -	\$ 115	\$ 64,924
Accrued Salaries and Wages	-	83	8,939	-	9,022	-	-	-	-	9,022
Payroll Taxes and Withholdings	-	12	695	-	707	-	-	-	-	707
Food Service Deposits	-	39,365	-	-	39,365	-	-	-	-	39,365
Due to Other Funds	-	-	-	1,316	1,316	-	-	-	-	1,316
Total Liabilities	<u>62,943</u>	<u>40,845</u>	<u>9,872</u>	<u>1,559</u>	<u>115,219</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115</u>	<u>115,334</u>
FUND BALANCES										
Restricted	100,224	520,084	71,706	-	692,014	2,766,778	1,610,363	4,377,141	2,662,607	7,731,762
Total Fund Balances	<u>100,224</u>	<u>520,084</u>	<u>71,706</u>	<u>-</u>	<u>692,014</u>	<u>2,766,778</u>	<u>1,610,363</u>	<u>4,377,141</u>	<u>2,662,607</u>	<u>7,731,762</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 163,167</u>	<u>\$ 560,929</u>	<u>\$ 81,578</u>	<u>\$ 1,559</u>	<u>\$ 807,233</u>	<u>\$ 2,766,778</u>	<u>\$ 1,610,363</u>	<u>\$ 4,377,141</u>	<u>\$ 2,662,722</u>	<u>\$ 7,847,096</u>

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016**

	Special Revenue Funds				Total Nonmajor Special Revenue Funds	Capital Project Fund		Total Nonmajor Capital Project Funds	Debt Service	Total Nonmajor Funds
	Special Revenue Trust	Food Service	Community Service	Package Cooperative		Capital Expansion Fund	Capital Improvement Trust		Referendum	
REVENUES										
Property Taxes	\$ -	\$ -	\$ 37,000	\$ -	\$ 37,000	\$ 500,000	\$ -	\$ 500,000	\$ 4,331,500	\$ 4,868,500
Other Local Sources	192,054	976,731	71,145	77,700	1,317,630	-	363	363	8,463	1,326,456
Interdistrict Sources	-	-	-	1,470	1,470	-	-	-	-	1,470
State Sources	-	23,097	-	-	23,097	-	-	-	-	23,097
Federal Sources	-	510,473	-	-	510,473	-	-	-	-	510,473
Other Sources	-	3,268	-	-	3,268	-	-	-	-	3,268
Total Revenue	192,054	1,513,569	108,145	79,170	1,892,938	500,000	363	500,363	4,339,963	6,733,264
EXPENDITURES										
Instruction:										
Regular Instruction	70,561	-	-	3,732	74,293	-	-	-	-	74,293
Vocational Instruction	1,733	-	-	-	1,733	-	-	-	-	1,733
Other Instruction	76,902	-	-	42,668	119,570	-	-	-	-	119,570
Total Instruction	149,196	-	-	46,400	195,596	-	-	-	-	195,596
Support Services:										
Pupil Services	121	-	-	-	121	-	-	-	-	121
General Administration Services	900	-	-	-	900	-	-	-	-	900
Building Administration Services	629	-	-	-	629	-	-	-	-	629
Operation and Maintenance	-	17,535	-	21,875	39,410	-	-	-	-	39,410
Pupil Transportation	4,900	-	-	5,455	10,355	-	-	-	-	10,355
Central Services	-	4,000	-	-	4,000	-	-	-	-	4,000
Food Services	-	1,486,785	-	-	1,486,785	-	-	-	-	1,486,785
Community Services	-	-	120,186	-	120,186	-	-	-	-	120,186
Principal and Interest	-	-	-	-	-	-	-	-	4,314,837	4,314,837
Other Support Services	-	738	-	2,438	3,176	-	-	-	-	3,176
Total Support Services	6,550	1,509,058	120,186	29,768	1,665,562	-	-	-	4,314,837	5,980,399
Total Expenditures	155,746	1,509,058	120,186	76,168	1,861,158	-	-	-	4,314,837	6,175,995
Excess (Deficiency) of Revenues over Expenditures	36,308	4,511	(12,041)	3,002	31,780	500,000	363	500,363	25,126	557,269
OTHER FINANCING SOURCES (USES)										
Premium on Long-Term Debt	-	-	-	-	-	-	-	-	166,138	166,138
Transfer In	-	-	-	-	-	-	1,350,000	1,350,000	-	1,350,000
Transfer Out	-	-	-	(3,002)	(3,002)	-	-	-	-	(3,002)
Total Other Financing Sources (Uses)	-	-	-	(3,002)	(3,002)	-	1,350,000	1,350,000	166,138	1,513,136
Net Change in Fund Balances	36,308	4,511	(12,041)	-	28,778	500,000	1,350,363	1,850,363	191,264	2,070,405
FUND BALANCE - BEGINNING	63,916	515,573	83,747	-	663,236	2,266,778	260,000	2,526,778	2,471,343	5,661,357
FUND BALANCE - ENDING	\$ 100,224	\$ 520,084	\$ 71,706	\$ -	\$ 692,014	\$ 2,766,778	\$ 1,610,363	\$ 4,377,141	\$ 2,662,607	\$ 7,731,762

DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2016

	<u>Balance</u> <u>7/1/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2016</u>
ASSETS				
Cash and Investments	\$ 149,260	\$ 799,878	\$ (807,354)	\$ 141,784
Accounts Receivable	280	989	(280)	989
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 149,540</u>	<u>\$ 800,867</u>	<u>\$ (807,634)</u>	<u>\$ 142,773</u>
LIABILITIES				
Accounts Payable	\$ -	\$ 10,246	\$ -	\$ 10,246
Due to Student Organizations				
Elementary Schools	8,575	24,165	(23,163)	9,577
Middle School	11,584	35,170	(37,224)	9,530
High School	129,381	731,286	(747,247)	113,420
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 149,540</u>	<u>\$ 800,867</u>	<u>\$ (807,634)</u>	<u>\$ 142,773</u>

SINGLE AUDIT

DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

Administering Agency/Pass-Through Agency/Award Description	Federal CFDA Number	Pass-Through Entity ID Number	Accrued Receivable at July 1, 2015	Receipts- Grantor Reimbursement	Total Expenditures	Accrued Receivable at June 30, 2016
<u>U.S. Department of Agriculture</u>						
Wisconsin Department of Public Instruction:						
Child Nutrition Cluster:						
School Breakfast Program	10.553	A546-00000-131309	\$ -	\$ 39,234	\$ 39,234	\$ -
National School Lunch Program	10.555	A547-00000-131309	-	362,587	362,587	-
Commodity Supplemental Food Program	10.555	Not Available	-	108,573	108,573	-
Milk Program	10.556	A548-00000-131309	-	80	80	-
Total Child Nutrition Cluster			-	510,474	510,474	-
Total U.S. Department of Agriculture			-	510,474	510,474	-
<u>U.S. Department of Education</u>						
Wisconsin Department of Public Instruction:						
Title I, Part A Cluster:						
ESEA Title I - Basic Grant	84.010	A141-00000-131309	45,894	183,941	278,559	140,512
Total Title I, Part A Cluster			45,894	183,941	278,559	140,512
Special Education Cluster:						
IDEA Flow Through	84.027	A341-00000-131309	70,684	361,594	642,849	351,939
IDEA Preschool Entitlement	84.173	A347-00000-131309	7,135	22,590	31,197	15,742
Total Special Education Cluster			77,819	384,184	674,046	367,681
Carl Perkins Act Formula Allocation	84.048	A420-00000-131316	19,962	19,962	18,531	18,531
Carl Perkins Leadership Grant	84.048	A400-00000-131316	-	-	2,318	2,318
			19,962	19,962	20,849	20,849
ESEA Title II-A Teacher & Principal Training	84.367	A365-00000-131309		51,726	52,643	917
ESEA Title III-A English Language Acquisition	84.365	A371-00000-749906	1,862	10,404	16,195	7,653
Passed through CESA 6				2,708	2,708	-
			1,862	13,112	18,903	7,653
Total U.S. Department of Education			145,537	652,925	1,045,000	537,612
<u>U.S. Department of Health and Human Services</u>						
Wisconsin Department of Health Services:						
Medical Assistance	93.778	Not Available	-	210,873	223,097	12,224
Total U.S. Department of Health and Human Services			-	210,873	223,097	12,224
TOTAL FEDERAL AWARDS			\$ 145,537	\$ 1,374,272	\$ 1,778,571	\$ 549,836

See Notes to Schedules of Expenditures of Financial Awards.

DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2016

Administering Agency/Pass-Through Agency/Award Description	State I.D. Number	Pass-Through Entity ID Number	Accrued Receivable at July 1, 2015	State Reimbursements	Expenditures	Accrued Receivable at June 30, 2016
<u>Wisconsin Department of Public Instruction:</u>						
Cost Reimbursement Programs:						
State Lunch	255.102	131316-107	\$ -	\$ 16,897	\$ 16,897	\$ -
Morning Milk Program	255.109	131316-109	-	3,079	3,079	-
School Breakfast Program	255.344	131316-108	-	3,120	3,120	-
Total Cost Reimbursement Programs			\$ -	\$ 23,096	\$ 23,096	\$ -
Entitlement Programs:						
Special Education and School Age Parents:						
Internal District Program	255.101	131316-100	\$ -	\$ 1,268,012	\$ 1,268,012	\$ -
Passed through CESA #2	255.101	Not Available	-	14,397	19,077	4,680
SAGE	255.504	131316-161	-	-	-	-
Total Entitlement Programs			\$ -	\$ 1,282,409	\$ 1,287,089	\$ 4,680
Other Aids:						
General Equalization Aid	255.201	131316-116	\$ 280,200	\$ 16,265,507	\$ 16,270,881	\$ 285,574
Per Pupil Aid	255.945	131316-113	-	-	519,600	519,600
Pupil Transportation	255.107	131316-102	-	67,057	67,057	-
Common School Fund Library Aids	255.103	131316-104	-	132,206	132,206	-
Educator Effective Evaluation System	255.940	131316-154	-	21,120	21,120	-
Career and Technical Education Grants	255.950	131316-151	-	42,705	42,705	-
Total Other Aids			\$ 280,200	\$ 16,528,595	\$ 17,053,569	\$ 805,174
Total State Awards			\$ 280,200	\$ 17,834,100	\$ 18,363,754	\$ 809,854

See Notes to Schedules of Expenditures of Financial Awards.

DEFOREST AREA SCHOOL DISTRICT
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2016

Note 1 Reporting Entity

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of the DeForest Area School District.

Note 2 Basis of Presentation

The accounting records for the grant program are maintained on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and the Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3 Special Education and School Age Parents Program

2015-2016 eligible costs under the State Special Education Program are \$4,800,293.

Note 4 Medical Assistance

Expenditures presented for the Medicaid SBS Benefit represent only the federal funds for the program that the District receives from DHS. District records should be consulted to determine the total amount expended for this program.

Note 5 Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed for the USDA Commodities Program (CFDA #10.555).

Note 6 De Minimis Cost Rate

The District did not elect to use the 10% de minimis indirect cost rate.

Note 7 Subrecipients

No amounts were passed through to subrecipients.

**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**

January 9, 2017

To the Board of Education
DeForest Area School District
DeForest, Wisconsin

We have audited, in accordance with the 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 the DeForest Area School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the DeForest Area School District's basic financial statements, and have issued our report thereon dated January 9, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the DeForest Area School 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 DeForest Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the DeForest Area School 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 entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as #2016-001, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DeForest Area School 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*.

DeForest Area School District's Response to Finding

The DeForest Area School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The DeForest Area School 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson Block & Company, Inc.

Johnson Block & Company, Inc.
Certified Public Accountants
Mineral Point, Wisconsin

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT GUIDELINES**

January 9, 2017

To the Board of Education
DeForest Area School District
DeForest, Wisconsin

Report on Compliance for Each Major Federal and State Program

We have audited the DeForest Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the State Single Audit Guidelines that could have a direct and material effect on each of the DeForest Area School District's major federal and state programs for the year ended June 30, 2016. The DeForest Area School District's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the DeForest Area School District's major federal and state 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. *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Guidelines. Those standards, the Uniform Guidance and the State Single Audit Guidelines 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 or state program occurred. An audit includes examining, on a test basis, evidence about the DeForest Area School 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 and state program. However, our audit does not provide a legal determination of the DeForest Area School District's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the DeForest Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the DeForest Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the DeForest Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state 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 and state program and to test and report on internal control over compliance in accordance with the *Uniform Guidance* and the *State Single Audit Guidelines*, 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 DeForest Area School 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.

The District's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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* and the *State Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.

Johnson Block & Company, Inc.

Johnson Block & Company, Inc.
Certified Public Accountants
Mineral Point, Wisconsin

**DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
* Material weakness identified?	No
* Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
* Material weakness identified?	No
* Significant deficiency(ies) identified?	None Reported

Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.615 (a)?	No
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Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Program or Cluster</u>
10.555, 10.553	Child Nutrition Cluster

Dollar threshold for distinguishing Types A and B programs:	\$750,000
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Auditee qualified as low-risk auditee?	Yes
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**DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section I - Summary of Auditor's Results (Continued)

State Awards

Internal control over major programs:

- * Material weakness identified? No
- * Significant deficiency(ies) identified? None Reported

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

Any audit findings disclosed that are required to be reported in accordance with State Single Audit guidelines No

Identification of major state programs:

<u>ID Number</u>	<u>Name of State Program or Cluster</u>
255.101	Special Education and School Age Parent
255.201	Equalization Aid
255.945	Per Pupil Aid

Section II – Financial Statement Finding

Finding #2016-001 – Preparation of Financial Statements in Accordance with GAAP – Repeat Finding

Condition: District staff does not prepare the financial statements and accompanying notes. The District has designated individuals responsible for reviewing and accepting the financial statements and related notes.

Criteria: Internal controls over preparation of the financial statements, including footnote disclosures, should be in place to provide reasonable assurance that a misstatement in the financial statements would be prevented or detected.

Cause: The District does not prepare the financial statements and related notes.

Effect: Because District staff relies on the auditor to assist with the preparation of the financial statements, the District's system of internal control may not prevent, detect, or correct misstatements in the financial statements.

Recommendation: The auditor will work with the District to make personnel more knowledgeable about its responsibility for the financial statements.

District's Response: The auditors prepare the financial statements but we review them and accept the statements prior to them being issued. We prepare financial reports that are reviewed by management on a monthly basis. Any concerns or questions are addressed throughout the year.

**DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section III – Federal and State Award Findings and Questioned Costs

None

Section IV – Other Issues

1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? No

2. Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned costs, material weakness, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the State Single Audit Guidelines:

Department of Corrections	N/A
Department of Health Services	N/A
Department of Workforce Development	No
Department of Public Instruction	No
Department of Administration	N/A
Office of Justice Assistance	N/A

Section IV – Other Issues (Continued)

3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? Yes
An Audit
Communication Letter
was submitted to the
oversight body

4. Name and signature of partner



Jay Bennett, CPA

5. Date of report:

January 9, 2017

**DEFOREST AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

#2015-001- This is still a finding. See #2016-001

