

DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2017

DEFOREST AREA SCHOOL DISTRICT
TABLE OF CONTENTS
For the Year Ended June 30, 2017

	Page
INDEPENDENT AUDITOR’S REPORT	
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	i – xi
FINANCIAL STATEMENTS:	
Statement of Net Position – Governmental Activities.....	1
Statement of Activities – Governmental Activities	2
Balance Sheet – Governmental Funds	3
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	6
Statement of Fiduciary Net Position	7
Statement of Changes in Fiduciary Net Position – Trust Funds	8
Notes to Financial Statements	9 – 41
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule for the General Fund – Budget and Actual	42
Budgetary Comparison Schedule for the Special Education Fund – Budget and Actual.....	43
Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	44
District Net OPEB Liability Schedules.....	45 – 46
Wisconsin Retirement System Schedules	47
Notes to Required Supplementary Information	48 – 49
OTHER SUPPLEMENTARY INFORMATION:	
Combining Balance Sheet – Non-Major Governmental Funds.....	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	51
Schedule of Changes in Assets and Liabilities – Agency Funds	52

DEFOREST AREA SCHOOL DISTRICT
TABLE OF CONTENTS
For the Year Ended June 30, 2017

	Page
SINGLE AUDIT:	
SCHEDULES OF FEDERAL AND STATE AWARDS:	
Schedule of Expenditures of Federal Awards	53
Schedule of Expenditures of State Awards	54
Notes to Schedules of Expenditures of Federal and State Awards	55
SINGLE AUDIT REPORTS AND SCHEDULES	
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.....	56 – 57
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	58 – 60
Schedule of Findings and Questioned Costs	61 – 63
Summary Schedule of Prior Year Findings and Questioned Costs.....	64



Johnson & Block
AND COMPANY, INC.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

November 21, 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2017, 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.

Emphasis of Matter

As discussed in notes 9 to the financial statements, effective July 1, 2016, the District adopted the provisions of GASB Statement No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xi, the budgetary comparison information, District Net OPEB Liability Schedules, District Supplemental Pension Plan Schedules, and Wisconsin Retirement System Schedules on pages 42 through 49 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 other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedules of expenditures of federal and state awards are 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 November 21, 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.

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

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

MANAGEMENT DISCUSSION & ANALYSIS
June 30, 2017

To the Board of Education
DeForest Area School District

The Management's Discussion and Analysis of the DeForest Area School District's 2016-2017 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 \$4,348,953.

Total District revenues on the Statement of Activities were \$50,071,623 including \$24,422,289 of property taxes and \$18,709,773 of federal and state aid not restricted for a specific purpose. Total District expenditures were \$45,722,670; including \$23,956,090 for direct instruction.

The following events took place during fiscal 2016-2017:

- At the end of the current fiscal year, fund balance for the general fund was approximately \$18.9 million. \$29,482 of that amount was restricted for self-funded insurance, \$86,285 of that amount was assigned for the ACT 59 project (CTE certifications) and \$132,905 was assigned for other future expenditures. The fund balance of Total Governmental Funds was approximately \$29.9 million. The breakdown of the \$29.9 million is as follows:
 - \$ 18.9 million General Fund
 - \$ 3.4 million Capital Projects
 - \$ 2.1 million Debt Service Fund
 - \$ 5.5 million Non-Major Governmental Funds
- Total unassigned Governmental Funds fund balance as of the end of the fiscal year is 24% of total expenditures.
- The 2016 tax levy increased 7.99% from the prior year from a total levy of \$22,614,582 to \$24,422,289.
- The District continued to allocate funds for Other Post Employment Benefit (OPEB) during the 2016-2017 fiscal year. The District's 2016-2017 contribution was \$1,102,750.
- 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% or \$22,717,113.

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

MANAGEMENT DISCUSSION & ANALYSIS
June 30, 2017

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, 2017

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, 2017

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 Districts *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, 2017

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, 2017 and 2016.

Table 1		
Condensed Statement of Net Position		
	Governmental Activities	
	2017	2016
Assets		
Current assets	\$ 35,588,359	\$ 60,583,659
Capital assets (less depreciation)	83,893,694	56,814,360
Other assets	-	4,721,834
Total assets	<u>\$ 119,482,053</u>	<u>\$ 122,119,853</u>
Deferred outflows of resources	<u>\$ 9,456,218</u>	<u>\$ 12,135,162</u>
Liabilities		
Current liabilities	\$ 9,729,211	\$ 11,870,724
Non-current liabilities	49,157,295	50,645,530
Total liabilities	<u>\$ 58,886,506</u>	<u>\$ 62,516,254</u>
Deferred inflows of resources	<u>\$ 3,650,069</u>	<u>\$ 4,794,495</u>
Net Position		
Net investment in capital assets	\$ 44,580,882	\$ 40,337,568
Restricted	5,553,560	12,077,449
Unrestricted	<u>16,267,254</u>	<u>14,529,249</u>
Total net position	<u>\$ 66,401,696</u>	<u>\$ 66,944,266</u>

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

MANAGEMENT DISCUSSION & ANALYSIS
June 30, 2017

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		
	2017	2016
Revenues		
Program revenues:		
Charges for services	\$ 2,410,703	\$ 2,238,859
Operating grants and contributions	3,813,111	3,543,897
General revenues:		
Property taxes	24,422,289	22,614,582
State formula aid	18,709,773	17,415,696
Other	715,747	305,081
Total revenues	50,071,623	46,118,115
Expenses		
Instruction	23,956,090	23,116,288
Pupil & instructional services	5,269,054	5,199,389
Building and general administration	2,699,973	2,899,155
Business administration and central services	8,632,154	7,700,330
Transportation and insurance	1,884,697	1,807,329
Food service	1,575,531	1,503,194
Debt service and other support services	1,322,011	1,303,136
Community services	129,513	126,706
Other	253,647	517,084
Total expenses	45,722,670	44,172,611
Increase (decrease) in net position	\$ 4,348,953	\$ 1,945,504

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

MANAGEMENT DISCUSSION & ANALYSIS
June 30, 2017

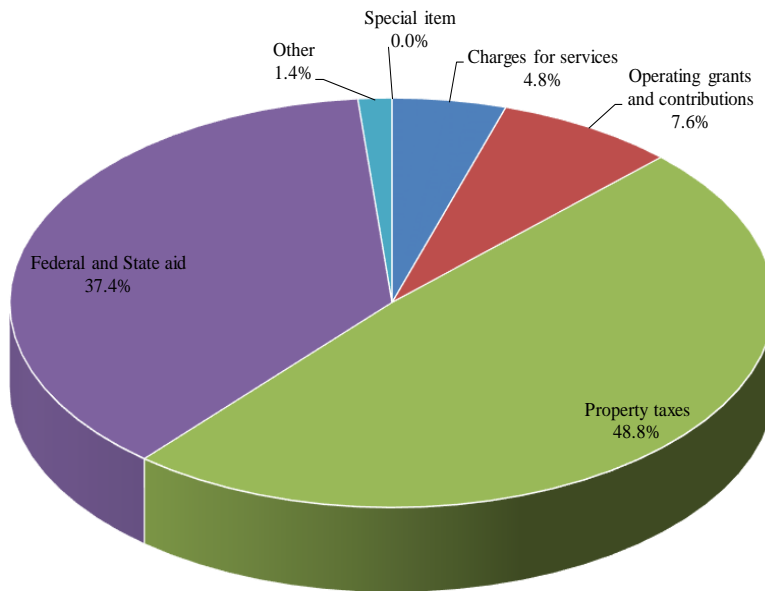
Financial Analysis of the District as a Whole (Continued)

The District relies primarily on property taxes and state formula aid to fund governmental activities. The District received \$50.1 million in revenue for fiscal year 2017 for Governmental Activities with 48.8% from property taxes and 37.4% from general federal and state aid. The remaining 13.8% of revenue came from charges for services, operating grants and contributions, and other.

The District received \$2.41 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 \$3.81 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 2016-17



DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

MANAGEMENT DISCUSSION & ANALYSIS
June 30, 2017

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 3
Net Cost of Governmental Activities

	Net Cost of Services 2017	Percent of Services 2017	Net Cost of Services 2016	Percent of Services 2016
Expenses				
Instruction	19,545,057	49.5%	19,238,810	50.1%
Pupil & instructional services	5,179,356	13.1%	4,972,680	13.0%
Building and general administration	2,696,887	6.8%	2,892,670	7.5%
Business administration and central services	8,612,258	21.8%	7,696,630	20.0%
Transportation	1,487,355	3.8%	1,404,041	3.7%
Food services	40,205	0.1%	(7,107)	0.0%
Debt service and other support services	1,549,964	3.9%	1,811,070	4.7%
Community services	42,568	0.1%	55,561	0.1%
Other	345,206	0.9%	325,500	0.8%
Total Expenses	39,498,856	100.0%	38,389,855	100.0%

The cost of all governmental activities this year was \$45,722,670. Individuals who directly participated or benefited from a program offering paid for \$2,410,703 of costs. Federal and state governments subsidized certain programs with grants and contributions of \$3,813,111. The net cost of governmental activities \$39,498,856 was financed by general revenues of the District including in \$24,422,289 property taxes, \$18,709,773 state formula aid, and \$715,747 other.

DEFOREST AREA SCHOOL DISTRICT
DeForest, Wisconsin

MANAGEMENT DISCUSSION & ANALYSIS
June 30, 2017

Financial Aspects of the District's Funds

- The general fund had a total increase in fund balance of \$97,586 and as of June 30, 2017 has a balance of \$18,949,987. The unassigned fund balance decreased by \$64,393. Assigned fund balance increased by \$155,714. Restricted fund balance increased by \$29,482. Non-spendable fund balance decreased by \$23,217.
- The debt service fund had a decrease to fund balance of \$539,878 and as of June 30, 2017 has a balance of \$2,122,729.
- The food service fund balance for 2016-17 showed a decrease of \$129,177 and as of June 30, 2017 has a balance of \$390,907.
- The OPEB (Other Post Employee Benefits) Liability fund balance increased by \$467,155 and as of June 30, 2017 has a balance of \$3,861,679.
- The private purpose trust fund which holds scholarship balances increased by \$42,011 and as of June 30, 2017 has a balance of \$373,163.

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 2016-17 to reflect:

- The General Fund revenue budget saw an increase of \$401,064. The Special Education revenue budget increased by \$132,161.
- The General Fund expenditure budget saw an increase of \$322,649. The Special Education expenditure budget increased by \$79,976.
- Capital Expansion Fund expenditures were decreased to projected actual activity.
- Long-term Capital Improvement Trust Fund revenues were increased to projected actual activity.
- The Employee Benefit Trust fund revenues increased to projected actual activity.
- The rest of the funds budgets, fund 21, 39, 49, 50, 80, 72, 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, 2017

Capital Assets

At the end of fiscal year 2017, the District had invested \$113,004,274 in capital assets; including buildings, sites and equipment (see Table 4). Total accumulated depreciation on assets was \$29,110,580. Asset acquisitions for governmental activities totaled \$28,548,722. The District recognized depreciation expense of \$1,469,388 for the year. (Detailed information about capital assets can be found in Note 6 to the financial statements.)

Table 4
Capital Assets
(Net of depreciation)

	2017	2016
Land	\$ 8,143,382	\$ 8,143,382
Buildings	62,383,914	57,122,403
Land improvements	2,173,350	2,173,350
Equipment and vehicles	7,625,973	7,301,859
Construction in progress	32,677,655	9,714,558
Accumulated depreciation	(29,110,580)	(27,641,192)
Net capital assets	\$ 83,893,694	\$ 56,814,360

Long-term Liabilities

At year-end the District had \$44,815,000 in general obligation bonds and other long-term debt outstanding. The District issued new G.O. Notes for \$5,000,000. Payments were made for a total of \$5,600,000 to general obligations debt. Detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

	2017	2016
General Obligation Bonds/Notes	\$ 44,815,000	\$ 45,415,000
Compensated Absences	4,002,221	3,981,710
Capital Lease	-	24,939
Premium/Discount on Debt	2,424,240	2,643,265
Termination Benefit	-	75,300
Net Long Term Liabilities	\$ 51,241,461	\$ 52,140,214

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, 2017

Factors Bearing on the District's Future

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

- The referendum projects of 2015 are anticipated to be finished in the Fall of 2017

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, 2017**

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Investments	\$ 16,059,411
Restricted Cash and Investments	11,490,780
Receivables:	
Taxes	5,648,824
Accounts	186,938
Prepaid Expenses	60,257
Due from Other Governments	2,142,149
Total Current Assets	35,588,359
Noncurrent Assets:	
Land and Land Improvements	10,316,732
Work in Progress	32,677,655
Buildings and Building Improvements	62,383,914
Equipment and Vehicles	7,625,973
Less: Accumulated Depreciation	(29,110,580)
Net Capital Assets	83,893,694
Total Noncurrent Assets	83,893,694
Total Assets	119,482,053
DEFERRED OUTFLOWS OF RESOURCES	
Deferred OPEB Outflows	1,102,750
Deferred Pension Outflows	8,353,468
Total Deferred Outflows of Resources	9,456,218
Total Assets and Deferred Outflows of Resources	\$ 128,938,271
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 1,972,555
Accrued Liabilities:	
Payroll and Related Items	3,170,076
Interest	376,355
Due to fiduciary funds	430,838
Due to other governments	93
Food Service Deposits	38,544
Current Portion of Long-Term Obligations	3,740,750
Total Current Liabilities	9,729,211
Noncurrent Liabilities:	
Noncurrent Portion of Long-Term Obligations	47,500,711
Net Pension Liability	1,159,762
Net OPEB Liability	496,822
Total Noncurrent Liabilities	49,157,295
Total Liabilities	58,886,506
DEFERRED INFLOWS OF RESOURCES	
Deferred Pension Inflows	3,650,069
Total Deferred Inflows of Resources	3,650,069
NET POSITION	
Net Investment in Capital Assets	44,580,882
Restricted	5,553,560
Unrestricted	16,267,254
Total Net Position	66,401,696
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 128,938,271

See accompanying notes to the financial statements.

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017**

<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	\$ 15,506,517	\$ 1,045,397	\$ 348,719	\$ (14,112,401)
Vocational Instruction	1,353,327	-	50,714	(1,302,613)
Special Education Instruction	5,137,626	45,931	2,211,257	(2,880,438)
Other Instruction	1,958,620	196,171	512,844	(1,249,605)
Total Instruction	<u>23,956,090</u>	<u>1,287,499</u>	<u>3,123,534</u>	<u>(19,545,057)</u>
Support Services				
Pupil Services	2,265,166	2,933	13,291	(2,248,942)
Instructional Staff Services	3,003,888	-	73,474	(2,930,414)
General Administration Services	852,203	-	1,272	(850,931)
Building Administration Services	1,847,770	-	1,814	(1,845,956)
Business Administration	1,762,560	-	-	(1,762,560)
Operation and Maintenance	4,945,708	-	19,896	(4,925,812)
Pupil Transportation	1,565,185	11,355	66,475	(1,487,355)
Central Services	1,923,886	-	-	(1,923,886)
Insurance	319,512	-	-	(319,512)
Interest and Fiscal Charges on Debt	1,322,011	-	-	(1,322,011)
Other Support Services	227,953	-	-	(227,953)
Food Services	1,575,531	1,021,971	513,355	(40,205)
Community Services	129,513	86,945	-	(42,568)
Unallocated Depreciation	25,694	-	-	(25,694)
Total Support Services	<u>21,766,580</u>	<u>1,123,204</u>	<u>689,577</u>	<u>(19,953,799)</u>
Total Governmental Activities	<u>\$ 45,722,670</u>	<u>\$ 2,410,703</u>	<u>\$ 3,813,111</u>	<u>(39,498,856)</u>

General revenues:

Taxes:	
Property Taxes, Levied for General Purposes	17,802,954
Property Taxes, Levied for Debt Service	6,589,335
Property Taxes, Levied for Community Services	30,000
Other Taxes	344,592
Federal and State Aid not Restricted to Specific Purpose	
General	18,709,773
Interest and Investment Earnings	211,708
Miscellaneous	159,447
Total General Revenues	<u>43,847,809</u>
Change in Net Position	4,348,953
Net Position - Beginning, Restated	62,052,743
Net Position - Ending	<u>\$ 66,401,696</u>

See accompanying notes to the financial statements.

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017**

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Investments	\$ 15,318,355	\$ -	\$ -	\$ 741,056	\$ 16,059,411
Restricted Cash and Investments	-	4,827,751	2,122,729	4,540,300	11,490,780
Receivables:					
Taxes	5,648,824	-	-	-	5,648,824
Accounts	149,184	14,300	-	23,454	186,938
Due from Other Funds	8,479	-	-	303,851	312,330
Due from Other Governments	2,142,149	-	-	-	2,142,149
Prepaid Expenses	60,237	-	-	20	60,257
TOTAL ASSETS	<u>\$ 23,327,228</u>	<u>\$ 4,842,051</u>	<u>\$ 2,122,729</u>	<u>\$ 5,608,681</u>	<u>\$ 35,900,689</u>
LIABILITIES					
Accounts Payable	\$ 484,779	\$ 1,462,592	\$ -	\$ 25,184	\$ 1,972,555
Accrued Salaries and Wages	2,427,931	-	-	10,953	2,438,884
Payroll Taxes and Withholdings	730,337	-	-	855	731,192
Due to Fiduciary Funds	434,101	-	-	-	434,101
Due to Other Funds	300,000	-	-	9,067	309,067
Due to Other Government	93	-	-	-	93
Food Service Deposits	-	-	-	38,544	38,544
Total Liabilities	<u>4,377,241</u>	<u>1,462,592</u>	<u>-</u>	<u>84,603</u>	<u>5,924,436</u>
FUND BALANCES					
Nonspendable	60,237	-	-	-	60,237
Restricted	29,482	3,379,459	2,122,729	5,524,078	11,055,748
Assigned	219,191	-	-	-	219,191
Unassigned	18,641,077	-	-	-	18,641,077
Total Fund Balances	<u>18,949,987</u>	<u>3,379,459</u>	<u>2,122,729</u>	<u>5,524,078</u>	<u>29,976,253</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 23,327,228</u>	<u>\$ 4,842,051</u>	<u>\$ 2,122,729</u>	<u>\$ 5,608,681</u>	<u>\$ 35,900,689</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, 2017

Total fund balance, governmental funds	\$ 29,976,253
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	83,893,694
Pension and OPEB deferred outflows of resources and deferred inflows of resources are actuarially determined by the defined pension plan and OPEB 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.	
Net deferred outflows and inflows of resources	5,806,149
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.	
General Obligation Debt	(44,815,000)
Net OPEB Liability	(496,822)
Net Pension Liability	(1,159,762)
Unamortized Premium on Debt	(2,424,240)
Accrued interest on long-term debt	(376,355)
Compensated Absences	(4,002,221)
Net Position of Governmental Activities in the Statement of Net Position	<u>\$ 66,401,696</u>

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, 2017**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property Taxes	\$ 17,647,546	\$ -	\$ 6,589,335	\$ 530,000	\$ 24,766,881
Other Local Sources	373,610	86,372	10,524	1,672,768	2,143,274
Interdistrict Sources	969,518	-	-	3,486	973,004
Intermediate Sources	1,000	-	-	-	1,000
State Sources	20,219,862	-	-	22,462	20,242,324
Federal Sources	1,297,252	-	-	490,892	1,788,144
Other Sources	152,459	-	-	4,535	156,994
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	40,661,247	86,372	6,599,859	2,724,143	50,071,621
EXPENDITURES					
Instruction:					
Regular Instruction	14,906,518	-	-	55,418	14,961,936
Vocational Instruction	1,281,570	-	-	21,045	1,302,615
Special Instruction	4,902,838	-	-	-	4,902,838
Other Instruction	1,626,187	-	-	280,172	1,906,359
Total Instruction	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	22,717,113	-	-	356,635	23,073,748
Support Services:					
Pupil Services	2,184,156	-	-	31	2,184,187
Instructional Staff Services	2,973,671	-	-	394	2,974,065
General Administration Services	818,793	-	-	912	819,705
Building Administration Services	1,877,242	-	-	1,300	1,878,542
Business Administration	596,085	-	-	-	596,085
Operation and Maintenance	4,194,841	27,982,514	-	902,139	33,079,494
Pupil Transportation	1,549,549	-	-	7,655	1,557,204
Central Services	1,831,578	-	-	701	1,832,279
Insurance	319,512	-	-	-	319,512
Food Services	-	-	-	1,549,970	1,549,970
Community Services	-	-	-	131,045	131,045
Principal and Interest	26,141	-	7,192,737	-	7,218,878
Other Support Services	792,039	-	-	1,379	793,418
Total Support Services	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	17,163,607	27,982,514	7,192,737	2,595,526	54,934,384
Total Expenditures	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	39,880,720	27,982,514	7,192,737	2,952,161	78,008,132
Excess (Deficiency) of Revenues over Expenditures	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	780,527	(27,896,142)	(592,878)	(228,018)	(27,936,511)
OTHER FINANCING SOURCES (USES)					
Proceeds from Long-Term Bonds	-	5,000,000	-	-	5,000,000
Premium on Long-Term Debt	-	-	53,000	-	53,000
Transfer In	24,043	-	-	706,984	731,027
Transfer Out	(706,984)	-	-	(24,043)	(731,027)
Total Other Financing Sources (Uses)	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(682,941)	5,000,000	53,000	682,941	5,053,000
Net Change in Fund Balances	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	97,586	(22,896,142)	(539,878)	454,923	(22,883,511)
FUND BALANCE - BEGINNING	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	18,852,401	26,275,601	2,662,607	5,069,155	52,859,764
FUND BALANCE - ENDING	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 18,949,987	\$ 3,379,459	\$ 2,122,729	\$ 5,524,078	\$ 29,976,253

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, 2017**

Net change in fund balances - total governmental funds: \$ (22,883,511)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

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.

This is the amount by which capital outlays (\$28,548,722) were less than depreciation (\$1,469,388) in the current period. 27,079,334

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.

Net (increase) decrease in net OPEB liability	775,617
Net (increase) decrease in compensated absences	(20,511)
Net decrease in termination benefits	75,300

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. (5,000,000)

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.

The amount of long-term debt principal payments in the current year is:	5,600,000
The amount of capital lease principal payments in the current year is:	24,939

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. 219,025

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.

Change in amount of accrued interest not reflected on Governmental Funds	(92)
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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.

Amount of current year required contributions into the defined benefit pension plan	1,365,307
Actuarially determined change in net pension asset between years, with some adjustments	(2,886,455)

Change in net position of governmental activities	\$ 4,348,953
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See accompanying notes to the financial statements.

**DEFOREST AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2017**

	<u>Private Purpose Trust Fund</u>			<u>Agency Funds</u>
	<u>Scholarship Fund</u>	<u>Other Post- Employment Benefit Trust</u>	<u>Total</u>	<u>Pupil Activity Fund</u>
ASSETS				
Cash and Investments	\$ 373,163	\$ 3,430,841	\$ 3,804,004	\$ 93,782
Accounts Receivable	-	-	-	525
Due from Other Funds	-	1,111,376	1,111,376	-
TOTAL ASSETS	<u>\$ 373,163</u>	<u>\$ 4,542,217</u>	<u>\$ 4,915,380</u>	<u>\$ 94,307</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ 14,614
Due to Other Funds	-	680,538	680,538	-
Due to Student Organizations	-	-	-	79,693
Total Liabilities	<u>-</u>	<u>680,538</u>	<u>680,538</u>	<u>94,307</u>
NET POSITION				
Restricted	373,163	3,861,679	4,234,842	-
Total Net Position	<u>373,163</u>	<u>3,861,679</u>	<u>4,234,842</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 373,163</u>	<u>\$ 4,542,217</u>	<u>\$ 4,915,380</u>	<u>\$ 94,307</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, 2017

	<u>Private Purpose Trust Fund</u>	<u>Other Post- Employment Benefit Trust</u>	<u>Total</u>
	<u>Scholarship Fund</u>		
ADDITIONS			
Employer Contributions	\$ -	\$ 902,750	\$ 902,750
Employee Contributions	-	34,852	34,852
Other Contributions	47,816	200,000	247,816
Interest and Dividends	7,145	10,091	17,236
TOTAL ADDITIONS	<u>54,961</u>	<u>1,147,693</u>	<u>1,202,654</u>
DEDUCTIONS			
Scholarship Payments	12,950	-	12,950
Benefit Payments	-	680,538	680,538
TOTAL DEDUCTIONS	<u>12,950</u>	<u>680,538</u>	<u>693,488</u>
Change in Net Position	42,011	467,155	509,166
NET POSITION - BEGINNING	331,152	3,394,524	3,725,676
NET POSITION - ENDING	<u>\$ 373,163</u>	<u>\$ 3,861,679</u>	<u>\$ 4,234,842</u>

See accompanying notes to the basic financial statements

NOTES TO FINANCIAL STATEMENTS

DEFOREST AREA SCHOOL DISTRICT
INDEX TO NOTES TO FINANCIAL STATEMENTS
June 30, 2017

	<u>PAGE</u>
Note 1. Summary of Significant Accounting Policies	9
A. Reporting Entity	9
B. District-Wide and Fund Financial Statements.....	9 – 11
C. Measurement Focus, Basis of Accounting and Financial Statement Presentation	11 – 13
D. Deposits and Investments	13
E. Receivables and Payables.....	14
F. Other Assets	14
G. Capital Assets.....	15
H. Long-Term Obligations.....	15
I. Vested Employee Benefits	15 – 16
J. Pensions.....	17
K. Deferred Outflows and Inflows of Resources	17
L. Equity Classifications.....	17 – 18
M. Claims and Judgments.....	18
N. Estimates	18
O. Change in Accounting Principle.....	19
Note 2. Explanation of Certain Differences Between Governmental Fund Statements and District-Wide Statements	19
Note 3. Deposits and Investments	20 – 23
Note 4. Fair Value Measurement	24
Note 5. Receivables and Unearned Revenue	24
Note 6. Capital Assets.....	25 – 26
Note 7. Long-Term Obligations.....	26 – 27
Note 8. Defined Benefit Pension Plan.....	28 – 33
Note 9. Post-Employment Benefits Other Than Pensions	33 – 37
Note 10. Fund Balances/Net Position	38 – 39
Note 11. Interfund Balances and Activity	39 – 40
Note 12. Self-Funded Insurance Program.....	40
Note 13. Limitation of School District Revenues	41
Note 14. Risk Management.....	41
Note 15. Commitments and Contingencies.....	41

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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, 2017**

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.

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.

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

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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, 2017**

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- 2017 tax roll:

Lien date and levy date	December 2016
Tax bills mailed	December 2016
Payment in full, or	January 31, 2017
First installment due	January 31, 2017
Second installment due	July 31, 2017
Tax deed- 2017 delinquent real estate taxes	October 2019

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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, 2017**

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, 2017**

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 \$5,000 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 \$75,300 and no remaining benefit accrued in the government-wide financial statements.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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, 2017 is \$439,984.

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, 2017 is \$1,285,734 for retirees and \$2,057,714 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, 2017 is \$116,504.

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, 2017 is \$102,285.

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, 2017 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. See Note 9 for additional information.

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, 2017 the District anticipates future payments to be \$35,333.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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 two items that qualify 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, 2017**

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. 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.

N. 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.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

1. Summary of Significant Accounting Policies (Continued)

O. Change in Accounting Principle

Effective July 1, 2016, The District adopted the provisions of GASB Statement No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. Implementation of GASB Statement No. 75 required net position in the governmental activities to be decreased by \$4,891,523. A prior period adjustment was made to reflect the July 1, 2016 beginning net OPEB liability, and the beginning deferred outflows of resources for District expenses associated with the OPEB plans after the June 30, 2016 measurement date, as follows:

Net Position - beginning, as previously reported	\$ 66,944,266
GASB No. 75 implementation - Net OPEB Liability	(5,574,469)
GASB No. 75 implementation - Deferred Outflows of Resources	<u>682,946</u>
Net Position - beginning, as restated	<u>\$ 62,052,743</u>

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, 2017**

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, 2017**

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, 2017 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	\$ 2,189	\$ 2,189	N/A
Deposits	8,042,798	8,099,714	Custodial Credit
Investments			
Local Government Investment Pool	3,898,207	3,898,207	Credit/Interest Rate
WISC Savings Deposit Accounts	13	13	Custodial Credit
WISC Investment Series	6,512,551	6,513,636	Credit
Certificates of Deposit	12,830,947	12,830,947	Custodial Credit/Interest Rate
Mutual Fund	26,692	26,692	Credit
Stock	134,580	134,580	
Total June 30, 2017	\$31,447,977	\$31,505,978	

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

Statement of Net Position	
Cash and Investments	\$16,059,411
Restricted Cash and Investments	11,490,780
Statement of Fiduciary Net Position	
Trust funds	3,804,004
Agency fund	93,782
Total Cash and Investments	\$31,447,977

Restricted cash in the amount of \$2,122,729 in the Debt Service funds and \$9,368,051 in the Capital Projects funds include amounts set aside for future payment of G.O. debt and capital project expenditures. The restricted cash to pay for these requirements is offset in the restricted fund balance of the respected funds.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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, 2017, the fair value of the District's share of the LGIP's assets was substantially equal to the amount as reported in these statements. Information on derivatives was not available to the District.

SWIB may invest in obligations of the U.S. Treasury and its agencies, Commercial Paper, Bank Time Deposits/Certificates of Deposit, Bankers’ Acceptances, Asset Backed Securities and Repurchase Agreements secured by the U.S. Government or its agencies and other instruments authorized under State Investment Fund Investment guidelines.

Investment allocation in the local government investment pool as of June 30, 2017 was: 97.7% in U.S. Government Securities, 1.0% in Commercial Paper and Corporate Notes, and 1.3% in Bankers’ Acceptances. The Wisconsin State Treasurer updates the investment allocations on a monthly basis.

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 29 days.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>Less Than 6 Months</u>	<u>6 Months to 1 Year</u>	<u>1 Year to 5 Years</u>
Certificates of Deposit	\$ 12,830,947	\$ 8,069,141	\$ 2,113,592	\$ 2,648,214
Local Government Investment Pool	3,898,207	3,898,207	-	-
Total	<u>\$ 16,729,154</u>	<u>\$ 11,967,348</u>	<u>\$ 2,113,592</u>	<u>\$ 2,648,214</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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, 2017, the District's investments were rated as follows:

Investment Type	Fair Value	Composite
Mutual Fund - Columbia Total Return Bond CL A	\$ 26,692	Morningstar Rating-3 stars
WISC Investment Series	6,513,636	S&P Global Ratings-AAAm
Local Government Investment Pool	3,898,207	Not Rated
Total fair value of investments subject to credit risk	<u>\$ 10,438,535</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, 2017, the District's deposits with financial institutions in excess of federal and state deposit insurance were exposed to custodial credit risk as follows:

Insured by FHLB with a letter of credit	<u>\$ 8,502,611</u>
Total	<u>\$ 8,502,611</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, 2017**

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, 2017				
	Fair Value	Level 1	Level 2	Level 3
Mutual Fund	\$ 26,692	\$ -	\$ 26,692	\$ -
Stock	134,580	-	-	134,580
Totals	\$ 161,272	\$ -	\$ 26,692	\$ 134,580

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 Customer Deposits

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 \$38,544 for food service payment card balances.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

6. Capital Assets

Capital asset activity for the year ended June 30, 2017 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	28,224,608	5,261,511	32,677,655
Total capital assets not being depreciated	<u>17,857,940</u>	<u>28,224,608</u>	<u>5,261,511</u>	<u>40,821,037</u>
Capital assets being depreciated				
Land improvements	2,173,350	-	-	2,173,350
Buildings	57,122,403	5,261,511	-	62,383,914
Equipment and vehicles	7,301,859	324,114	-	7,625,973
Total capital assets being depreciated	<u>66,597,612</u>	<u>5,585,625</u>	<u>-</u>	<u>72,183,237</u>
Accumulated depreciation				
Land improvements	(1,683,372)	(39,924)	-	(1,723,296)
Buildings	(21,383,525)	(1,162,828)	-	(22,546,353)
Equipment and vehicles	(4,574,295)	(266,636)	-	(4,840,931)
Total accumulated depreciation	<u>(27,641,192)</u>	<u>(1,469,388)</u>	<u>-</u>	<u>(29,110,580)</u>
Capital assets being depreciated, net of accumulated depreciation	<u>38,956,420</u>	<u>4,116,237</u>	<u>-</u>	<u>43,072,657</u>
Total capital assets, net of depreciation	<u>\$ 56,814,360</u>	<u>\$ 32,340,845</u>	<u>\$ 5,261,511</u>	<u>\$ 83,893,694</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

6. Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Instruction		
Regular	\$	35,948
Special education		1,113
Support services		
Instructional support services		842
General administration services		526
Business administration		1,081,687
Operations and maintenance of plant services		252,996
Pupil transportation services		7,980
Central services		58,426
Food service		3,313
Other support service		25,694
Community services		863
Total depreciation expense		\$ 1,469,388

7. Long-Term Obligations

Long-term obligations activity for the year ended June 30, 2017 was as follows:

<u>General Obligation Debt</u>	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Governmental Activities					
G.O. Bonds	\$45,415,000	\$ -	\$ 2,485,000	\$ 42,930,000	\$ 2,475,000
G.O. Notes	-	5,000,000	3,115,000	1,885,000	-
Total governmental activity long-term liabilities	45,415,000	5,000,000	5,600,000	44,815,000	2,475,000
Deferred amounts for premium	2,643,265	-	219,025	2,424,240	219,024
Capital Leases	24,939	-	24,939	-	-
Termination Benefit	75,300	-	75,300	-	-
Compensated Absences	3,981,710	20,511	-	4,002,221	1,046,726
Total Long-Term Debt	\$52,140,214	\$ 5,020,511	\$ 5,919,264	\$ 51,241,461	\$ 3,740,750

Total interest paid and accrued during the year:

	Expense	Paid
Long Term Debt	\$ 1,539,833	\$ 1,539,737

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

7. Long-Term Obligations (Continued)

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, 2017 is comprised of the following individual issues:

Description	Issue Dates	Interest Rate %	Dates of Maturity	Original Indebtedness	Balance 6/30/2017	Amount Due Within One Year
GO Refunding Bonds	1/7/2014	2.0%	4/1/2020	\$ 7,940,000	\$ 7,605,000	\$ 2,475,000
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	-
GO Promissory Note	1/4/2017	1.99%	4/1/2021	5,000,000	1,885,000	-
Total General Obligation Debt					<u>\$ 44,815,000</u>	<u>\$ 2,475,000</u>

The 2016 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$2,274,219,193. The legal debt limit and margin of indebtedness as of June 30, 2017, in accordance with §67.03(1)(b) of the Wisconsin statutes follows:

Debt Limit (10% of \$2,274,219,193)	\$ 227,421,919
Deduct long-term debt applicable to debt margin	<u>44,815,000</u>
Margin of indebtedness	<u><u>\$ 182,606,919</u></u>

Aggregate cash flow requirements for the retirement of long-term principal and interest as of June 30, 2017 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,475,000	\$ 1,505,424
2019	2,535,000	1,455,924
2020	2,595,000	1,405,224
2021	1,885,000	1,353,324
2022	1,690,000	1,315,812
2023-2027	9,850,000	5,936,362
2028-2032	12,150,000	3,647,113
2033-2036	<u>11,635,000</u>	<u>988,138</u>
Totals	<u><u>\$ 44,815,000</u></u>	<u><u>\$ 17,607,321</u></u>

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.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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>.

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.

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.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

8. Defined Benefit Pension Plan (Continued)

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>
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
2016	0.5	(5)

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. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. 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.

During the reporting period, the WRS recognized \$1,365,307 in contributions from the employer.

Contribution rates as of June 30, 2017 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.8%	6.8%
Protective with Social Security	6.8%	10.6%
Protective without Social Security	6.8%	14.9%

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

8. Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the District reported a liability of \$1,159,762 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. 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, 2016, the District's proportion was 0.14070700%, which was an increase of 0.00065098% from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$2,991,654.

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 442,217	\$ (3,647,350)
Changes of assumptions	1,212,576	-
Net difference between projected and actual earnings on pension plan investments	5,772,926	-
Changes in proportion and difference between District contributions and proportionate share of contributions	27,374	(2,719)
District contributions subsequent to the measurement date	<u>898,375</u>	<u>-</u>
Total	<u>\$ 8,353,468</u>	<u>\$ (3,650,069)</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

8. Defined Benefit Pension Plan (Continued)

\$898,375 reported as deferred outflows related to pension resulting from the District'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, 2018. 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>Net Deferred Outflows (Inflows) of Resources</u>
2018	\$ 1,545,354
2019	1,545,354
2020	1,057,341
2021	(345,071)
2022	2,046

Actuarial assumptions. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2015
Measurement Date of Net Pension Liability (Asset):	December 31, 2016
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.

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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:

Asset Allocation Targets and Expected Returns				
As of December 31, 2016				
Core Fund Asset Class	Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50 %	45 %	8.3 %	5.4 %
Fixed Income	24.5	37	4.2	1.4
Inflation Sensitive Assets	15.5	20	4.3	1.5
Real Estate	8	7	6.5	3.6
Private Equity/Debt	8	7	9.4	6.5
Multi-Asset	4	4	6.6	3.7
Total Core Fund	110	120	7.4	4.5
Variable Fund Asset Class				
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
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				

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 3.78%. 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, 2017**

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)	\$ 15,257,408	\$ 1,159,762	\$ (9,696,065)

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

The DeForest Area School District implemented GASB Statement No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions for the fiscal year ended June 30, 2017. This superseded GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This implementation allows the District to report its liability for other post-employment benefits consistent with newly established generally accepted accounting principles and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

At June 30, 2017, the District's net OPEB liability was measured as of June 30, 2016, and the total pension liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016.

Plan Description. 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 365 active members in the plan and 55 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. The post-retirement plan does not issue stand-alone financial reports.

Funding Policy. 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.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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

Benefits Provided. For the DeForest Area School District, the other postemployment benefit liability consists of several interdependent pieces arising from the rules of the plan. The amounts paid by the District for continued health care for all classification that are entitled to a benefit are briefly outlined below:

Teachers: At least age 55 with a minimum of 15 years of service

Eligible retirees may use the monies resulting from unused sick leave, converted at 90% of the retiree's per diem rate at retirement, to continue coverage under the District's group medical, dental and/or life insurance plan until their exhaustion.

Teachers hired prior to July 1, 2015 may instead elect to receive contributions towards the District's medical plan at the exit rate for a period of 5 years. Should a retiree become Medicare-eligible prior to the end of the 5-year period, the District will continue its contributions towards a Medicare-supplement plan.

Administrators (including current Superintendent): At least age 55 with a minimum of 10 years of service

Eligible retirees will receive an annual contribution of \$25,000 into a Premium-Only HRA for a period of 3 years. The total contributions will not exceed a maximum of \$75,000.

Salaried District Specialist: At least age 55 with a minimum of 10 years of service

Eligible retirees will receive an annual contribution of \$25,000 into a Premium-Only HRA for a period of 2 years. The total contributions will not exceed a maximum of \$50,000.

Hourly District Wide Administration Support: At least age 55 with a minimum of 10 years of service

The District will make a contribution to a Premium-Only HRA on behalf of eligible retirees. The total contribution amount will be based upon \$250 per year of service in a non-district office support position and \$1,000 per year of service in a district office administrative support position. The total amount, however, will not exceed a maximum of \$20,000.

Hourly Support Staff: At least age 55 with a minimum of 15 years of service

Eligible retirees will receive a one-time contribution of \$10,000 into a Premium-Only HRA. The total contribution will not exceed a maximum of \$10,000 and is further prorated by the employee's full-time employment (FTE) status.

Note: HRA funds may only be used to reimburse premiums on the District's health plan during the COBRA period. Any remaining balance would be for coverage with an outside provider – may not remain on the District health plan beyond COBRA.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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

Employees Covered by Benefit Terms. Employees participating in the OPEB benefit consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Inactive employees or beneficiaries currently receiving benefit payments	55
Inactive employees entitled to but not yet receiving benefit payments	33
Active employees	<u>459</u>
	<u>547</u>

Net OPEB Liability. The District's net OPEB liability of \$496,822 was measured at June 30, 2016, and was determined by an actuarial valuation as of June 30, 2016.

Actuarial Assumptions and Other Inputs. The net OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00	percent
Discount rate	3.00	percent
Healthcare cost trend rates	7.50	7.00% decreasing by .050% per year down to 6.50%, then down by 0.10% per year down to 5.0%, and level thereafter

Mortality rates were based on the RP-2000 healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2016 valuation were based on a study conducted in 2015 using the Wisconsin Retirement System (WRS) experience from 2012-2014.

Discount Rate. The discount rate used to measure the total net OPEB liability was 3.00%. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the net OPEB liability. The long-term expected rate of return is equal to the discount rate.

The discount rate is based on the Bond Buyer Go 20-Year AA Bond Index published by the Federal Reserve for the week at the beginning of the measurement date.

Assets Allocation. The current assets allocation of the District's OPEB plan's asset classes as of June 30, 2017 was as follows:

- 10.5% - money market account
- 89.5% - ICS account (Insured Cash Sweep account)

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a)-(b)
Balance at 6/30/2015	\$ 4,200,940	\$ 3,348,305	\$ 852,635
Changes for the year:			
Service cost	220,646	-	220,646
Interest	118,053	-	118,053
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes in assumptions or other inputs	-	-	-
Contributions - employer	-	682,946	(682,946)
Net investment income	-	11,566	(11,566)
Benefit payments	(752,293)	(752,293)	-
Net Changes	<u>(413,594)</u>	<u>(57,781)</u>	<u>(355,813)</u>
Balance at 6/30/2016	<u>\$ 3,787,346</u>	<u>\$ 3,290,524</u>	<u>\$ 496,822</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 5.5 percent in 2015 to 3.0 percent in 2016.

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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.0 percent) or 1-percentage-point higher (4.0 percent) than the current discount rate:

		1% Decrease	Current	1% Increase
		2.00%	Discount Rate	4.00%
		2.00%	3.00%	4.00%
Net OPEB Liability	6/30/2016	<u>\$ 648,928</u>	<u>\$ 496,822</u>	<u>\$ 346,961</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates. The following represents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5 percent decreasing to 4.0 percent) or 1-percentage-point higher (8.5 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

		1% Decrease (6.5% decreasing to 4.0%)	Healthcare Cost Trend Rates (7.5% decreasing to 5.0%)	1% Increase (8.5% decreasing to 6.0%)
Net OPEB Liability	6/30/2016	\$ 374,988	\$ 496,822	\$ 623,937

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2017, the District recognized OPEB expense of \$327,133. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to the OPEB from the OPEB from the following sources:

Gain / Loss	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ -	\$ -
Changes of assumptions or other inputs	-	-
District contributions subsequent to the measurement date	1,102,750	-
Total	\$ 1,102,750	\$ -

\$1,102,750 reported as deferred outflows related to OPEB resulting from the DeForest Area School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (asset) in the year ended June 30, 2018. There are no other amounts reported as deferred outflows of resources or deferred inflows of resources related to OPEB that will be recognized in OPEB expense in future years.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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	\$ 60,237	\$ -	\$ -	\$ -	\$ 60,237
<u>Restricted for:</u>					
Self Insurance	29,482	-	-	-	29,482
Debt Service Retirement	-	2,122,729	-	-	2,122,729
Capital Projects	-	-	-	8,219,759	8,219,759
Food Services	-	-	390,907	-	390,907
Community Services	-	-	57,606	-	57,606
Special Revenue Trust	-	-	235,265	-	235,265
Total Restricted	<u>29,482</u>	<u>2,122,729</u>	<u>683,778</u>	<u>8,219,759</u>	<u>11,055,748</u>
<u>Assigned for:</u>					
Programs	<u>219,191</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>219,191</u>
<u>Unassigned:</u>	<u>18,641,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,641,077</u>
Total Fund Balances	<u>\$18,949,987</u>	<u>\$2,122,729</u>	<u>\$ 683,778</u>	<u>\$ 8,219,759</u>	<u>\$29,976,253</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

10. Fund Balances / Net Position (Continued)

Net Position

Net position reported on the district-wide Statement of Net Position at June 30, 2017 includes the following:

Capital Assets Net of Depreciation	\$83,893,694
Less: Related Long-term Debt Outstanding	(44,815,000)
Plus: Unspent Bond Proceeds	<u>5,502,188</u>
Total Net Investment in Capital Assets	<u>44,580,882</u>
Restricted	
Capital Projects	4,840,300
Food Service	390,907
Community Service	57,606
Donations	235,265
Self-funded Insurance	<u>29,482</u>
Total Restricted	<u>5,553,560</u>
Unrestricted	<u>16,267,254</u>
Total Governmental Activities Net Position	<u><u>\$66,401,696</u></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, 2017 are as follows:

Due To	Amount	Due From	Purpose
Private Benefit Trust Fund	\$ 434,101	General Fund	OPEB contribution
Food Service	3,851	Private Benefit Trust Fund	OPEB contribution
Private Benefit Trust Fund	588	Community Service	OPEB contribution
Capital Improvement Trust Fund	300,000	General Fund	Capital improvement projects
General Fund	<u>8,479</u>	Package Cooperative	Cash shortfall
Total-Fund Financial Statements	747,019		
Less: Fund Eliminations	<u>(316,181)</u>		
Total District-Wide Statement of Net Position	<u><u>\$ 430,838</u></u>		

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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	\$ 700,000
Operating Transfer	General Fund	Special Revenue Trust Fund	24,043
Operating Transfer	Package Cooperative	General Fund	6,984
			<u>\$ 731,027</u>

12. Self-Funded Insurance Program

During the year, the District established a self-funded dental benefit plan for its employees. The plan administrator is responsible for the approval, processing, and payment of claims, after which they bill the District for reimbursement. The District is also responsible for a monthly administrative fee. The Plan reports on a fiscal year ending June 30.

Accounting and budgeting requirements for the Plan are established by the Wisconsin Department of Public Instruction. Currently, the Plan is accounted for in the General Fund of the District. The District has no stop-loss coverage for dental care coverage of the Plan.

At June 30, 2017, the District has reported a liability of \$19,479, which represents reported and unreported claims which were incurred on or before June 30, 2017, but were not paid by the District as of that date. This amount consists of claims reported to the District by the Plan administrator (\$0), claims reported to the Plan administrator but not the District (\$8,765) and claims which were not yet reported to either the Plan administrator or the District (\$10,714). The amounts not reported to the District were determined by the Plan administrator.

Change in the claims liability for the year ended June 30, 2017 is as follows:

	<u>Year Ended June 30, 2017</u>
Estimated claims outstanding July 1	\$ -
Current year claims and changes in estimates	451,068
Claim payments	<u>431,589</u>
Estimated claims outstanding June 30	<u>\$ 19,479</u>

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

13. 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.

14. 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.

15. 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.

Construction Commitments

As of June 30, 2017 the District had the following construction commitments:

	Total Contract Commitments	Expenditures Incurred Through June 30, 2017
Eagle Point Elementary School	\$ 17,627,364	\$ 15,423,802
Winsor Elementary School	18,397,590	17,026,436
	\$ 36,024,954	\$ 32,450,238

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, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
	REVENUES			
Local Sources	\$ 17,595,035	\$ 17,955,557	\$ 18,021,156	\$ 65,599
Interdistrict Sources	943,951	872,140	923,587	51,447
Intermediate Sources	-	-	1,000	1,000
State Sources	18,902,314	18,940,771	18,959,847	19,076
Federal Sources	322,085	366,381	472,968	106,587
Other Sources	33,416	63,016	152,459	89,443
Total Revenues	37,796,801	38,197,865	38,531,017	333,152
EXPENDITURES				
Instruction:				
Regular Instruction	15,086,412	14,795,596	14,906,518	(110,922)
Special Education Instruction	236,254	201,733	203,102	(1,369)
Vocational Instruction	1,289,817	1,284,560	1,281,570	2,990
Other Instruction	1,556,403	1,639,661	1,626,187	13,474
Support Service:				
Pupil Services	1,260,084	1,274,983	1,287,495	(12,512)
Instructional Staff Services	2,621,887	2,625,471	2,641,152	(15,681)
General Administration Services	771,993	840,493	818,793	21,700
Building Administration Services	1,865,483	1,847,220	1,877,242	(30,022)
Business Administration	632,404	652,107	596,085	56,022
Operation and Maintenance	4,253,677	4,137,068	4,193,091	(56,023)
Pupil Transportation	1,283,765	1,292,224	1,224,765	67,459
Central Services	1,882,926	1,889,391	1,817,273	72,118
Insurance	295,000	319,107	319,512	(405)
Debt Principal and Interest	26,202	26,142	26,141	1
Other Support Services	372,796	931,996	792,039	139,957
Total Expenditures	33,435,103	33,757,752	33,610,965	146,787
Excess (Deficiency) of Revenues Over Expenditures	4,361,698	4,440,113	4,920,052	479,939
OTHER FINANCING SOURCES (USES)				
Transfers In	5,000	21,900	24,044	2,144
Transfers Out	(4,366,698)	(4,462,013)	(4,846,510)	(384,497)
Total Other Financing Sources and Uses	(4,361,698)	(4,440,113)	(4,822,466)	(382,353)
Net Change in Fund Balances	-	-	97,586	97,586
Fund Balances - Beginning	18,852,401	18,852,401	18,852,401	-
Fund Balances - Ending	\$ 18,852,401	\$ 18,852,401	\$ 18,949,987	\$ 97,586

See accompanying notes to the required supplementary information

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL EDUCATION FUND
BUDGET AND ACTUAL
For the Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interdistrict	\$ 31,200	\$ 31,200	\$ 45,931	\$ 14,731
State Sources	1,265,000	1,265,000	1,260,015	(4,985)
Federal Sources	788,060	920,221	824,284	(95,937)
Total Revenues	<u>2,084,260</u>	<u>2,216,421</u>	<u>2,130,230</u>	<u>(86,191)</u>
EXPENDITURES				
Instruction:				
Special Education Instruction	4,674,769	4,680,485	4,699,736	(19,251)
Support Service:				
Pupil Services	911,231	907,245	896,661	10,584
Instructional Staff Services	338,366	337,852	332,519	5,333
Operation and Maintenance	3,806	3,806	1,750	2,056
Pupil Transportation	252,698	328,198	324,784	3,414
Central Services	12,088	15,348	14,305	1,043
Other Support Services	-	-	-	-
Total Expenditures	<u>6,192,958</u>	<u>6,272,934</u>	<u>6,269,755</u>	<u>3,179</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,108,698)</u>	<u>(4,056,513)</u>	<u>(4,139,525)</u>	<u>(83,012)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	4,111,198	4,056,513	4,139,525	83,012
Transfers Out	(2,500)	-	-	-
Total Other Financing Sources and Uses	<u>4,108,698</u>	<u>4,056,513</u>	<u>4,139,525</u>	<u>83,012</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the required supplementary information

**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, 2017**

	General Fund	Special Education Fund
A) Sources/Inflows of Resources:		
Actual amounts "total revenues" from the budgetary comparison schedules	\$ 38,531,017	\$ 2,130,230
Reclassification: Special education fund revenues are reclassified to the general fund, required for GAAP reporting	<u>2,130,230</u>	<u>(2,130,230)</u>
The general fund revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 40,661,247</u>	<u>\$ -</u>
B) Uses/Outflows of Resources:		
Actual amounts "total expenditures" from the budgetary comparison schedules	\$ 33,610,965	\$ 6,269,755
Reclassification: Special education fund expenditures are reclassified to the general fund, required for GAAP reporting	<u>6,269,755</u>	<u>(6,269,755)</u>
The general fund expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 39,880,720</u>	<u>\$ -</u>

See accompanying notes to the required supplementary information

**DEFOREST AREA SCHOOL DISTRICT
DISTRICT NET OPEB LIABILITY SCHEDULES
For the Year Ended June 30, 2017**

**SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED
RATIOS AS OF THE MEASUREMENT DATE**

	2016
Total OPEB Liability	
Service costs	\$ 220,646
Interest	118,053
Changes in benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions or other inputs	-
Benefit payments	(752,293)
Net change in total OPEB	\$ (413,594)
Total OPEB Liability-Beginning	4,200,940
Total OPEB Liability-Ending (a)	\$ 3,787,346
 Fiduciary Net Position	
Contributions - employer	\$ 682,946
Net investment income	11,566
Benefit payments	(752,293)
Administrative expense	-
Net change in fiduciary net position	\$ (57,781)
Fiduciary Net Position-Beginning	3,348,305
Fiduciary Net Position-Ending (b)	\$ 3,290,524
 Net OPEB Liability	
Net OPEB Liability - ending (a) - (b)	\$ 496,822
 Fiduciary net position as a percentage of the Total OPEB Liability	86.88%
 Covered Employee Payroll	\$ 15,874,637
 Total OPEB Liability as a percentage of covered- employee payroll	3.13%

See accompanying notes to the required supplementary information

**DEFOREST AREA SCHOOL DISTRICT
DISTRICT NET OPEB LIABILITY SCHEDULES
For the Year Ended June 30, 2017**

**SCHEDULE OF DISTRICT CONTRIBUTIONS
Last 10 Fiscal Years**

	<u>2017</u>
Actuarially Determined Contribution (ADC)	\$ 382,964
Contributions in Relation to the ADC	<u>682,946</u>
Contribution Deficiency/(Excess)	<u><u>(299,982)</u></u>
 Cover-Employee Payroll	 \$ 15,874,637
 Contributions as a Percentage of Covered-Employee Payroll	 4.30%

See accompanying notes to the required supplementary information

**DEFOREST AREA SCHOOL DISTRICT
WISCONSIN RETIREMENT SYSTEM
June 30, 2017**

**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)
2016	0.14070700%	\$ 1,159,762	\$ 20,569,841	5.64%	99.12%
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
2017	\$ 1,431,910	\$ (1,431,910)	\$ -	\$ 21,295,250	6.72%
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.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017**

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, 2017.

<u>Fund</u>	<u>Function</u>	<u>Amount</u>
General Fund	Regular Instruction	\$ 110,922
General Fund	Pupil Services	12,512
General Fund	Instructional Staff Services	15,681
General Fund	Building Administration Services	30,022
General Fund	Operation and Maintenance	56,023
General Fund	Transfers	384,497
Special Education Fund	Special Education Instruction	19,251

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 \$243,878 over budget and, in total, Special Education expenditures were \$3,179 under budget.

**DEFOREST AREA SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017**

NOTE 3

DISTRICT NET OPEB LIABILITY SCHEDULES

Governmental Accounting Standards Board Statement No. 75 requirements have been implemented prospectively, therefore, the illustrations do not present similar information for the 9 preceding years.

Actuarial assumptions. Key methods and assumptions used to calculate actuarially determined contributions (ADC) were as follows:

Valuation Date	6/30/2016
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Amortization Method	10 year Level \$
Discount Rate	3.00%
Inflation	3.00%

Changes of benefit terms. There were no changes of benefit terms during the year.

Changes of assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 5.5 percent in 2015 to 3.00 percent in 2016.

NOTE 4

WISCONSIN RETIREMENT SYSTEM SCHEDULES

Governmental Accounting Standards Board Statement No. 68 requirements have been implemented prospectively, therefore, the illustrations do not present similar information for the 7 preceding years.

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

Changes of assumptions. A change in actuarial assumptions was made in 2015. 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, 2017**

	Special Revenue Funds				Total Nonmajor Special Revenue	Capital Project Fund		Total Nonmajor Capital Project	Total Nonmajor Funds
	Special Revenue Trust	Food Service	Community Service	Package Cooperative		Capital Expansion Fund	Capital Improvement Trust		
ASSETS									
Cash and Investments	\$ 251,945	\$ 427,691	\$ 60,153	\$ 1,267	\$ 741,056	\$ -	\$ -	\$ -	\$ 741,056
Restricted Cash and Investments	-	-	-	-	-	2,516,778	2,023,522	4,540,300	4,540,300
Receivables:									
Accounts	4,181	1,073	9,721	8,479	23,454	-	-	-	23,454
Due from Other Funds	-	3,851	-	-	3,851	-	300,000	300,000	303,851
Prepaid Expenses	-	20	-	-	20	-	-	-	20
TOTAL ASSETS	\$ 256,126	\$ 432,635	\$ 69,874	\$ 9,746	\$ 768,381	\$ 2,516,778	\$ 2,323,522	\$ 4,840,300	\$ 5,608,681
LIABILITIES									
Accounts Payable	\$ 20,861	\$ 3,056	\$ -	\$ 1,267	\$ 25,184	\$ -	\$ -	\$ -	\$ 25,184
Accrued Salaries and Wages	-	112	10,841	-	10,953	-	-	-	10,953
Payroll Taxes and Withholdings	-	16	839	-	855	-	-	-	855
Due to Other Funds	-	-	588	8,479	9,067	-	-	-	9,067
Food Service Deposits	-	38,544	-	-	38,544	-	-	-	38,544
Total Liabilities	20,861	41,728	12,268	9,746	84,603	-	-	-	84,603
FUND BALANCES									
Restricted	235,265	390,907	57,606	-	683,778	2,516,778	2,323,522	4,840,300	5,524,078
Total Fund Balances	235,265	390,907	57,606	-	683,778	2,516,778	2,323,522	4,840,300	5,524,078
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 256,126	\$ 432,635	\$ 69,874	\$ 9,746	\$ 768,381	\$ 2,516,778	\$ 2,323,522	\$ 4,840,300	\$ 5,608,681

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, 2017

	Special Revenue Funds				Total Nonmajor Special Revenue Funds	Capital Project Fund		Total Nonmajor Capital Project Funds	Total Nonmajor Funds
	Special Revenue Trust	Food Service	Community Service	Package Cooperative		Capital Expansion Fund	Capital Improvement Trust		
REVENUES									
Property Taxes	\$ -	\$ -	\$ 30,000	\$ -	\$ 30,000	\$ 500,000	\$ -	\$ 500,000	\$ 530,000
Other Local Sources	483,064	1,021,971	86,945	67,629	1,659,609	-	13,159	13,159	1,672,768
Interdistrict Sources	-	-	-	3,486	3,486	-	-	-	3,486
State Sources	-	22,462	-	-	22,462	-	-	-	22,462
Federal Sources	-	490,892	-	-	490,892	-	-	-	490,892
Other Sources	-	4,535	-	-	4,535	-	-	-	4,535
Total Revenue	483,064	1,539,860	116,945	71,115	2,210,984	500,000	13,159	513,159	2,724,143
EXPENDITURES									
Instruction:									
Regular Instruction	55,418	-	-	-	55,418	-	-	-	55,418
Vocational Instruction	21,045	-	-	-	21,045	-	-	-	21,045
Other Instruction	230,615	-	-	49,557	280,172	-	-	-	280,172
Total Instruction	307,078	-	-	49,557	356,635	-	-	-	356,635
Support Services:									
Pupil Services	31	-	-	-	31	-	-	-	31
Instructional Staff Services	394	-	-	-	394	-	-	-	394
General Administration Services	912	-	-	-	912	-	-	-	912
Building Administration Services	1,300	-	-	-	1,300	-	-	-	1,300
Operation and Maintenance	14,265	118,366	-	19,508	152,139	750,000	-	750,000	902,139
Pupil Transportation	-	-	-	7,655	7,655	-	-	-	7,655
Central Services	-	701	-	-	701	-	-	-	701
Food Services	-	1,549,970	-	-	1,549,970	-	-	-	1,549,970
Community Services	-	-	131,045	-	131,045	-	-	-	131,045
Other Support Services	-	-	-	1,379	1,379	-	-	-	1,379
Total Support Services	16,902	1,669,037	131,045	28,542	1,845,526	750,000	-	750,000	2,595,526
Total Expenditures	323,980	1,669,037	131,045	78,099	2,202,161	750,000	-	750,000	2,952,161
Excess (Deficiency) of Revenues over Expenditures	159,084	(129,177)	(14,100)	(6,984)	8,823	(250,000)	13,159	(236,841)	(228,018)
OTHER FINANCING SOURCES (USES)									
Transfer In	-	-	-	6,984	6,984	-	700,000	700,000	706,984
Transfer Out	(24,043)	-	-	-	(24,043)	-	-	-	(24,043)
Total Other Financing Sources (Uses)	(24,043)	-	-	6,984	(17,059)	-	700,000	700,000	682,941
Net Change in Fund Balances	135,041	(129,177)	(14,100)	-	(8,236)	(250,000)	713,159	463,159	454,923
FUND BALANCE - BEGINNING	100,224	520,084	71,706	-	692,014	2,766,778	1,610,363	4,377,141	5,069,155
FUND BALANCE - ENDING	\$ 235,265	\$ 390,907	\$ 57,606	\$ -	\$ 683,778	\$ 2,516,778	\$ 2,323,522	\$ 4,840,300	\$ 5,524,078

**DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2017**

	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Adjustment*</u>	<u>Balance 6/30/2017</u>
ASSETS					
Cash and Investments	\$ 141,784	\$ 367,394	\$ (362,263)	\$ (53,133)	\$ 93,782
Accounts Receivable	989	525	(989)	-	525
Total Assets	<u>\$ 142,773</u>	<u>\$ 367,919</u>	<u>\$ (363,252)</u>	<u>\$ (53,133)</u>	<u>\$ 94,307</u>
 LIABILITIES					
Accounts Payable	\$ 10,246	\$ 14,614	\$ (10,246)	\$ -	\$ 14,614
Due to Student Organizations					
Elementary Schools	9,577	24,078	(24,338)	-	9,317
Middle School	9,530	33,222	(38,121)	(932)	3,699
High School	113,420	296,005	(290,547)	(52,201)	66,677
Total Liabilities	<u>\$ 142,773</u>	<u>\$ 367,919</u>	<u>\$ (363,252)</u>	<u>\$ (53,133)</u>	<u>\$ 94,307</u>

* Adjustments made to move Middle School and High School Activity Funds to Special Revenue Fund.

SINGLE AUDIT

DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Administering Agency/Pass-Through Agency/Award Description	Federal CFDA Number	Pass-Through Entity ID Number	Accrued Receivable at July 1, 2016	Receipts- Grantor Reimbursement	Total Expenditures	Accrued Receivable at June 30, 2017
<u>U.S. Department of Agriculture</u>						
Wisconsin Department of Public Instruction:						
Child Nutrition Cluster:						
School Breakfast Program	10.553	2017-131316-SB-546	\$ -	\$ 34,833	\$ 34,833	\$ -
National School Lunch Program	10.555	2017-131316-NSL-547	-	335,588	335,588	-
Commodity Supplemental Food Program	10.555	Not Available	-	120,359	120,359	-
Milk Program	10.556	2017-131316-SMP-548	-	113	113	-
Total Child Nutrition Cluster			-	490,893	490,893	-
Total U.S. Department of Agriculture			-	490,893	490,893	-
<u>U.S. Department of Education</u>						
Wisconsin Department of Public Instruction:						
Title I, Part A Cluster:						
ESEA Title I - Basic Grant	84.010	17-131316-Title I-141	140,512	272,416	265,423	133,519
Total Title I, Part A Cluster			140,512	272,416	265,423	133,519
Special Education Cluster:						
IDEA Flow Through	84.027	2017-131316-IDEA-341	351,939	775,272	637,724	214,391
IDEA Preschool Entitlement	84.173	17-131316-Pre-S-347	15,742	35,487	33,696	13,951
Total Special Education Cluster			367,681	810,759	671,420	228,342
Carl Perkins Act Formula Allocation	84.048	2017-131316-CP-CTE-400	18,531	27,824	17,432	8,139
Carl Perkins Leadership Grant	84.048	Not Available	2,318	6,248	3,930	-
			20,849	34,072	21,362	8,139
ESEA Title II-A Teacher & Principal Training	84.367	17-131316-Title II-365	917	51,561	50,644	-
ESEA Title III-A English Language Acquisition Passed through CESA 6	84.365	17-131316-Title III A-391	7,653	13,246	8,582	2,989
			-	1,000	1,000	-
			7,653	14,246	9,582	2,989
Total U.S. Department of Education			537,612	1,183,054	1,018,431	372,989
<u>U.S. Department of Health and Human Services</u>						
Wisconsin Department of Health Services:						
Medical Assistance	93.778	Not Available	12,224	233,732	277,049	55,541
Total U.S. Department of Health and Human Services			12,224	233,732	277,049	55,541
TOTAL FEDERAL AWARDS			\$ 549,836	\$ 1,907,679	\$ 1,786,373	\$ 428,530

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, 2017

Administering Agency/Pass-Through Agency/Award Description	State I.D. Number	Pass-Through Entity ID Number	Accrued Receivable at July 1, 2016	State Reimbursements	Expenditures	Accrued Receivable at June 30, 2017
Wisconsin Department of Public Instruction:						
Cost Reimbursement Programs:						
State Lunch	255.102	131316-107	\$ -	\$ 16,901	\$ 16,901	\$ -
Morning Milk Program	255.109	131316-109	-	2,811	2,811	-
School Breakfast Program	255.344	131316-108	-	2,751	2,751	-
Total Cost Reimbursement Programs			<u>\$ -</u>	<u>\$ 22,463</u>	<u>\$ 22,463</u>	<u>\$ -</u>
Entitlement Programs:						
Special Education and School Age Parents:						
Internal District Program	255.101	131316-100	\$ -	\$ 1,259,439	\$ 1,259,439	\$ -
Passed through CESA #2	255.101	Not Available	4,680	4,951	271	-
Total Entitlement Programs			<u>\$ 4,680</u>	<u>\$ 1,264,390</u>	<u>\$ 1,259,710</u>	<u>\$ -</u>
Other Aids:						
General Equalization Aid	255.201	131316-116	\$ 271,705	\$ 16,346,176	\$ 16,353,468	\$ 278,997
Per Pupil Aid	255.945	131316-113	519,600	1,396,600	877,000	-
Pupil Transportation	255.107	131316-102	-	66,475	66,475	-
Common School Fund Library Aids	255.103	131316-104	-	117,925	117,925	-
Educator Effective Evaluation System	255.940	131316-154	-	21,280	21,280	-
Career and Technical Education Grants	255.950	131316-151	-	39,727	39,727	-
Assessments of Reading Readiness	255.956	131316-166	-	4,667	4,667	-
Aid for Special Education Transition Grant	255.960	131316-168	-	576	576	-
Total Other Aids			<u>\$ 791,305</u>	<u>\$ 17,993,426</u>	<u>\$ 17,481,118</u>	<u>\$ 278,997</u>
Total State Awards			<u>\$ 795,985</u>	<u>\$ 19,280,279</u>	<u>\$ 18,763,291</u>	<u>\$ 278,997</u>

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, 2017

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

2016-2017 eligible costs under the State Special Education Program are \$5,442,847.

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***

November 21, 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, 2017, 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 November 21, 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 #2017-001, 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**

November 21, 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, 2017. 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, 2017.

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, 2017**

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

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

Identification of major federal programs:

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

Dollar threshold for distinguishing Types A and B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

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

**DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

Identification of major state programs:

<u>ID Number</u>	<u>Name of State Program or Cluster</u>
255.201	Equalization Aid
255.945	Per Pupil Aid

Identification of non-major programs which limited procedures were performed in accordance with the Wisconsin Public District Audit Manual:

<u>ID Number</u>	<u>Name of State Program or Cluster</u>
255.101	Special Education and School Age Parent

Section II – Financial Statement Finding

Finding #2017-001 – 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.

Section III – Federal and State Award Findings and Questioned Costs

None

**DEFOREST AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

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:

November 21, 2017

**DEFOREST AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

#2016-001- This is still a finding. See #2017-001

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

**REQUIRED AUDIT COMMUNICATIONS
TO THE BOARD OF EDUCATION**

Year Ended June 30, 2017

**Johnson Block & Company, Inc.
Certified Public Accountants
2500 Business Park Road
Mineral Point, WI 53565
(608) 987-2206**

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN**

Year Ended June 30, 2017

Index

	<u>Page</u>
Audit Matters Requiring Communication to the Governing Body.....	1 – 3
Management Letter.....	4
Explanation of Adjusting Journal Entries and Passed Journal Entries	5 – 6
Current Year Comments.....	6
Concluding Remarks	6



Certified Public Accountants

2500 Business Park Road ▲ Mineral Point, Wisconsin 53565 ▲ TEL 608-987-2206 ▲ FAX 608-987-3391

AUDIT MATTERS REQUIRING COMMUNICATION TO THE GOVERNING BODY

November 21, 2017

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the DeForest Area School District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, Uniform Guidance, and the State Single Audit Guidelines, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 30, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As described in note 9 to the financial statements, the District changed accounting policy related to pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, effective July 1, 2016. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation

Management's estimates of the depreciable lives of property and equipment are based on the expected use of the respective assets and management's experience with similar assets used by the District.

Actuarial Valuations

Management's estimates of other postemployment benefits liability are based on various factors. The estimated liability was computed by an actuarial study performed for the fiscal year ended June 30, 2016 and measured as of June 30, 2016.

WRS Pension Liability and Deferred Outflows and Inflows of Resources

The District's net pension liability and deferred outflows and inflows of resources were determined based on actuarial valuations performed by an actuary hired by the state retirement system.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Passed journal entries were as follows:

- 17/18 fiscal year construction invoice recorded in 16/17 - \$63,372
- Accrued interest receivable - \$12,950

The following material misstatements detected as a result of audit procedures were corrected by management:

- Record 16/17 Special Revenue Trust Fund revenues and expenditures that were being traced in liability accounts - \$135,041 net revenues in excess of expenditures.
- Reverse portion of Fund 73 yearend transfer not made by statutory due date - \$80,214
- Reverse prior year construction retainage - \$654,468

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 21, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on these statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of principles and auditing standards, with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Schedule of Funding Progress for Post-Employment Benefit Plans, Wisconsin Retirement Schedules and budgetary comparison information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining schedules, schedule of federal and state awards, and pupil activity summary, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the District Board of Education and management of the DeForest Area School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Johnson Block & Company, Inc.

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



Johnson ▲ Block
AND COMPANY, INC.

Certified Public Accountants

2500 Business Park Road ▲ Mineral Point, Wisconsin 53565 ▲ TEL 608-987-2206 ▲ FAX 608-987-3391

MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of the DeForest Area School District for the year ended June 30, 2017, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The following pages that accompany this letter summarize our comments and suggestions regarding those matters. This letter does not affect our report dated November 21, 2017 on the financial statements of the DeForest Area School District.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the District's personnel during the course of our work. In particular, we would like to note the considerable assistance and cooperation provided to us by Kathleen Davis, Wendy Corlett and the rest of the staff.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Johnson Block & Company, Inc.

Johnson Block & Company, Inc.
Certified Public Accountants
Mineral Point, Wisconsin
November 21, 2017

**DEFOREST AREA SCHOOL DISTRICT
DEFOREST, WISCONSIN
Year Ended June 30, 2017**

ADJUSTING JOURNAL ENTRIES

We are frequently requested by our clients to discuss the overall condition of their accounting records and what our role is as your audit firm. We believe that these matters should be discussed at each audit. The following section describes your accounting process in general terms and the ways in which we work with your staff.

The District processes accounting transactions based on the type of transaction involved. Money coming in is processed using a cash receipt system. The payment of bills is done through an accounts payable system. Employees' salaries are paid using a payroll system. These three systems are responsible for recording and summarizing the vast majority of your financial transactions.

Beyond the three systems described in the preceding paragraph, another system is used to make corrections and to record non-cash transactions. This system involves preparing general journal entries. Journal entries provide the ability to make changes to the financial data entered in the other systems. As your auditor, our role is to substantiate year end financial balances and information presented by your accounting personnel, and compare it to supporting information and outside confirmations. When information in your records does not agree with audit evidence, an adjusting entry is necessary to correct your records. Sometimes these entries are identified by your staff as they get ready for the audit. Other adjustments are prepared by us as we discover that your general ledger balances need to be changed to reflect the correct balances. Please see the attached journal entries in the appendix.

The proposed entries were accepted by the District's management. All of these changes are reflected properly in your audited financial statements. A copy of the adjusting entries has been provided to your staff and they have been posted to your 2017 general ledger.

Because we are providing assistance to your staff by proposing changes to correct your financial information, you should be aware of these processes. Many of our clients rely on us to make year-end adjustments as we have described. In many cases, we have the experience or expertise to compute, and identify, corrections to your records. We work with many clients on similar issues, so it may be more efficient for you to have us do some of the one-time adjustments, rather than your staff spending hours researching the proper adjustment.

Due to the technical nature of financial reporting and complying with financial reporting standards, most clients have their CPA firm prepare the year-end financial statements and note disclosures. We have provided these services to your District.

We are communicating this information to you to give you a better understanding of what we do and how the year end process works. Our job as auditors is to bring in an outside perspective and provide a level of comfort that your financial reporting system is materially correct and accurately reflects the financial activity for the year. However, in many cases, our services go beyond auditing. Our experience and training can provide a very cost-effective means of providing the year end accounting assistance that you need.

We hope that by providing this information on what we do, you will have a better understanding of our role, and the various ways that we work with your staff.

PASSED JOURNAL ENTRIES

Passed journal entries may occur due to transaction timing, industry practices or lack of overall significance. The potential (passed) journal entries identified in our audit that were not posted to the general ledger are identified on page 2.

CURRENT YEAR COMMENTS

Activity Funds – Student Activity Funds Management

As part of our audit procedures we confirm all bank accounts in the District's name or accounts under the District's EIN. Our procedures noted that two FFA Landlab accounts were confirmed by the financial institution that are not included in the District's general ledger. It appears these could be considered activity funds and should be accounted for in fund 60. We recommend the district review these accounts determine if they should be included as part of the activity funds and verify that they are under the District's EIN.

Compensated Absences

The district offers employee's various levels of benefits based on position/title. GASB No. 16 *Accounting for Compensated Absences*, requires that a dollar amount for those benefits be calculated and accrued in the government-wide financial statements. This calculation can be complex and time consuming. We recommend the district review all of the benefits provided to employees and develop a more structured spreadsheet or other documentation to determine the District's liability. This calculation needs to be reviewed and updated annually after the close of the fiscal year-end.

Capital Asset Management

The District's investment in capital assets, net of depreciation is typically the largest asset on the government-wide financial statements. It is important to that the activity be tracked throughout the year and that the district identify both additions and retirements to capital assets. The District currently does not have a standard process to identify and track retirements of capital assets. We recommend the District look at developing procedures or good lines of communication to those departments that are in charge of both identifying and safeguarding physical assets.

CONCLUDING REMARKS

We would like to thank you for allowing us to serve you. We are committed to assisting you in the long-term financial success of the DeForest Area School District and our comments are intended to draw to your attention issues which need to be addressed by the District to meet its goals and responsibilities.

The comments in this communication are not intended to reflect in any way on the integrity or ability of the personnel of the District. They are made solely in the interest of establishing sound internal control practices required by changing professional standards. The District's staff is deeply committed to maintaining the financial reporting system so that informed decisions can be made. They were receptive to our comments and suggestions.

We will review the status of these comments during each audit engagement. If you have any questions or comments regarding this communication or the financial statements, do not hesitate to contact us.